British Columbia Telephone Company Annual Report 1982

British Columbia Telephone Company Ninety-First Annual Report 1982

Incorporated by Special Act of the Parliament of Canada, April 12, 1916

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Our Cover and Photo Story

On the cover, Warren Snyder, design engineer, is pictured at one of the new Microtel Pacific Research integrated-circuit-design work stations.

Inside the Report, other pictures illustrate the diversity of B.C. Tel's operations as well as some of its corporate accomplishments and business directions. Financial graphics and maps are shown on Telidon screens.

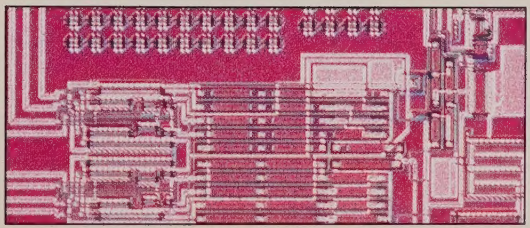
Whether they were engaged in the traditional business of providing telecommunications services or the new business of designing microchips; in manufacturing state-of-the-art communications equipment or getting down to old fashioned competition, the people of B.C. Tel demonstrated the high calibre of their work and the high level of their determination to overcome the daunting challenges of 1982.

Comparative Highlights

For the years ended December 31

British Columbia Telephone Company

		1982	1981	Increase (Decrease)
Financial	***Revenues, Expenses and Earnings*** *(Millions of Dollars)*			
	Telecommunications operations			
	– revenues	**$1,009.4**	$894.3	12.9%
	– expenses	**$741.3**	$643.1	15.3%
	Manufacturing operations			
	– sales	**$243.6**	$188.9	29.0%
	– costs and expenses	**$231.3**	$184.7	25.2%
	Combined operating earnings	**$280.4**	$255.4	9.8%
	Ordinary share earnings	**$ 72.2**	$ 68.5	5.4%
	Ordinary Shareholders' Items			
	Earnings per share	**$ 2.11**	$ 2.23	(5.4%)
	Dividends declared per share	**$ 1.60**	$ 1.42	12.7%
	Equity per share	**$16.87**	$16.36	3.1%
	Average shares outstanding *(Millions)*	**34.3**	30.8	11.4%
	Return on share equity	**12.81%**	13.84%	(7.4%)
	Invested Capital			
	Average invested capital *(Millions of Dollars)*	**$1,827.2**	$1,651.1	10.7%
	Return on average invested capital	**11.05%**	11.00%	.5%
Other Statistics	Gross capital expenditures *(Millions of Dollars)*	**$433.9**	$384.2	12.9%
	Internally generated funds *(Millions of Dollars)*	**$247.1**	$238.5	3.6%
	Subscriber lines in service	**1,326,000**	1,311,000	1.1%
	Subscriber line gain for the year	**15,000**	54,000	(72.2%)
	Number of employees	**17,842**	18,566	(3.9%)



The Chairman's Letter

The shock waves which battered Canadian and world economies in 1982 may well be subsiding. If so, the aftershocks are still with us and we are only now beginning to appreciate the extent of the damage that has been done in human and economic terms.

The events of 1982 made it obvious that no one — neither individual nor corporation — would or could be immune to serious economic dislocation. We noted in last year's Annual Report that 1982 would be a difficult year for the Company. It has proved so. We also noted that the Company had particular strengths which should enable it to turn challenge into achievement. This, too, was accurate.

Compared with 1981, our financial returns for 1982 were disappointing. However, compared with what might have been for this Company and what actually transpired for so many other corporations, our results indicate that we achieved some degree of success.

We were able to maintain our dividend and that, in itself, was an uncommon achievement in the corporate world of 1982. We did so deliberately, in the face of falling earnings, to underline for our shareholders and the investment community the fact that a utility must offer an attractive and consistent return over time to ensure continued access to the capital it requires.

Given the importance of telecommunications to our society, we view growth as something more than an option we may choose when it suits our purpose. We believe that the scale of our construction program should properly reflect the long-term economic prospects of the province.

While we are making every effort to scale down our program in keeping with current economic circumstances, we are determined to ensure that the long-term needs of the province will be met.

Since we rely on external sources to finance large portions of each year's construction program, the availability of external capital at fair rates is critical. We therefore require the support of all sectors of the investment community and, in particular, of our current shareholders.

Essentially, that was the core of the problem which faced us throughout 1982. The interim rate increase which became effective in January and the full increase which became effective in May provided some measure of relief but did not offset an even greater deterioration of the Company's revenues and financial position.

Early in the year we had embarked on a vigorous program of restraint to contain or reduce our costs of operation without seriously curtailing our ability to provide a high level of service. By mid-year, it had become obvious that these constraints would not suffice and even more extensive and stringent measures would have to be applied.

Details of these restraint programs are in the Report of Directors. Undoubtedly, the single most beneficial element in our restraint efforts was the work-sharing program undertaken by managers and exempt employees of the telephone operations arm of the Company. In addition to the loss of a day's pay at the start of the restraint program, they accepted what amounted to a 10% cut in pay for the last five months of the year. This exemplary response was a most heartening indication that our people understood and accepted the need for cooperative action to offset the grim realities of the economic situation. It deserves special recognition and I wish to add my personal thanks to those of the other Directors for this timely support.

The negative effects of the prolonged recession were obvious and evident in the Company and in the country. But there was another side to the coin. To paraphrase Dr. Samuel Johnson, the threat of disaster tends to concentrate the mind.

The chilling numbers that stared up at all of us forced a hard-eyed reappraisal of the realities of the present and the prospects for the future. In the case of B.C. Tel, this reappraisal had been evolving over the past few years, as described in previous annual reports. The bad news of 1982 simply added to the urgency and importance of the reassessment.

The initial result of this process has been a major restructuring of the Company as a whole as well as significant changes within our telephone operations.

Members of our Board and officers of the Company were deeply involved in the assessment of our position, the recommendations for change and the subsequent decisions. I am encouraged by the support afforded by the directors and officers throughout this process but deeply saddened by the passing of a long-time Director — Allan M. McGavin. As is more fully recognized in the Report of Directors, we will miss his wise counsel as we will that of the three officers whose retirements were announced in 1982 — Messrs. Carlile, Smith and Tucker.

The changes are described in some detail in the Report of Directors. Here, I wish to provide the broad considerations which formed the basis for the

"... we will be using the full resources of the Company's people, their expertise and motivation, and the best of the new technologies to meet our obligations to our customers, our shareholders and our employees."

reassessment and restructuring.

We recognized that innovative computer-communications technologies and broadened regulatory decisions were, of themselves, redefining our role in the field of communications. While we continued to have the obligation to provide basic service, our dominant position as the supplier of associated products and services was, and is, being threatened by new entrants to what is now a competitive market. In addition, recent regulatory decisions have begun to tie our allowable rate of return to a very high level of service quality.

To meet these two challenges, we have restructured the Company. A separate business terminal equipment unit — BTE — has been created to provide an aggressive response to the increasing competition in this field. All of B.C. Tel's existing activities in the business terminal equipment field have been combined in the new self-contained division. It also will be held accountable as to profitability.

In setting up this new entity within the Company, we were responding not only to the presence of competition from outside the Company, but also to a spirit of entrepreneurship which is developing among our own employees.

For many, this will be a welcome opportunity to move from the traditional world of the regulated utility to a free-enterprise environment of increased opportunity — and risk.

Although a great deal of attention centres around the matter of competition in the communications world of the Eighties, we must, as a telecommunications carrier, concern ourselves primarily with the core of our business — our local and long distance networks.

The changes which have taken place within our telephone operations reflect this concern. Although there has been a realignment of geographical divisions within our operating area, the principal change has been one of philosophy. And, again, there is a reflection of the entrepreneurial spirit in our adoption of the accountable Area General Manager concept.

We do not have the luxury of relatively long time frames in which to respond or react to new technologies or to new wants and needs of our customers. Nor can we assume that our perception of what constitutes good service is shared by our customers. We must be able to respond quickly and appropriately to fast-changing conditions and do so in an economic and profitable manner.

For an organization which serves most of this vast province with every aspect of modern telecommunications, any decentralization of responsibilities or functions must be carefully planned. We believe that the time involved in planning this latest evolution of the Company has been well spent, in that it should benefit our customers and, at the same time, make the Company's overall provision of services more cost-effective.

The Area General Managers will now be held accountable for balancing the service demands and priorities within their areas against the financial performance of the assets they control. In effect, we have introduced the profit-and-loss concept at the area level.

Naturally, we must ensure that the Company's broader policies are being observed and must also provide certain support-staff elements for the operating areas. These elements now include technical, administrative and network marketing staffs.

Our purpose in making these changes is to set new business directions for the Company, new performance standards for our managers and realistic objectives based on customer, employee and shareholder needs. We recognize that this will not be accomplished overnight. Although the new corporate structure has been in place since the first of 1983, full implementation of all facets of our planning will occupy the current year and much of 1984.

The manufacturing arm of the Company, Microtel, is planning for significant growth and product diversification and has revised its organizational structure accordingly. In addition to decentralizing the decision-making process, the new structure will make it possible to provide a sharper focus on customer needs, product planning and product development.

I am also encouraged by the progress of our research and development facility — some of whose products are shown in the pictorial sections of this year's Report. The move of Microtel Pacific Research to its new building and the formation of the Pacific Microelectronics Centre are evidence of our commitment to research and development, and to the opportunities available from the new technologies.

At the top of the list of positive elements is the new collective agreement which has been ratified by the members of the Telecommunications Workers Union (TWU). In last year's Annual Report, I noted the formation of a Human Relations Task Force whose mandate was to recommend ways to improve human relations and promote a mutually productive and supportive environment for all Company employees. I look on the early and amicable ratification of a new two-year contract as evidence of a growing feeling of cooperation and maturity on both sides of the bargaining table.

One of the most gratifying examples was the spirit of cooperation and compromise by both parties during the negotiations which made it possible to avoid layoffs.

If nothing else, the abrasive economy we faced in 1982 has produced a company finer-honed to survive in times of difficulty and uncertainty. We are not immune to the ills and upsets of our business environment but we have some cause for confidence in our ability to move through what will, in all probability, be an economically sluggish year or two.

Although our application for an interim rate increase of 6% to become effective January 1, 1983 was denied by a Canadian Radio-television and Telecommunications Commission (CRTC) decision on December 10, 1982, our application for a general rate increase of 11.3% to become effective, in part at least, by May 1, 1983, is now in the hands of the Commission. Further details of this application are in the Report of Directors. If approved as requested, the increase should generate some $27 million of additional revenues in 1983.

We will continue to exercise restraint in all areas of our operations. We will be aggressive in marketing our business terminal equipment, innovative and energetic in the broad field of marketing our network services. We will ensure that the improvement of human relations within the Company remains a priority.

In short, we will be using the full resources of the Company's people, their expertise and motivation, and the best of the new technologies to meet our obligations to our customers, our shareholders and our employees.

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Report of Directors

In a year in which the word "depression" began to replace "recession" as a description of the economic times, B.C. Tel managed to turn daunting challenges into notable achievements.

The key word is "managed."

It required the most prudent and skillful management of our resources of people and money to ensure that our customers continued to receive a high level of service, that our obligations to our shareholders were met, and that the process of planning our role in the information world of the future was not disrupted.

The turbulence of the economy called for an almost continual resetting of priorities in our construction, operational and financial activities. Severe expense constraint had to be imposed throughout the Company and the 1982 construction program curtailed. The flattening revenue curve of the early months of 1982 forced the introduction of a work-sharing proposal by the Company.

Although the leaders of the TWU had supported many aspects of the restraint program, they felt they were unable to recommend acceptance of the work-sharing concept, which would have involved some loss of pay to their members.

There were some positive notes at year-end:
— the implementation of a long-planned restructuring of the corporation, including the formation of a competitive business terminal equipment unit;
— a regulatory decision marking the end to uncertainties regarding terminal equipment attachment;
— the ratification of a two-year collective agreement by the members of the TWU, and
— some indication that the worst of the recession may be over.

FINANCIAL PERFORMANCE

Earnings

Ordinary share earnings for 1982 were $2.11 per ordinary share, based on the average number of shares outstanding during the year. Ordinary share earnings for 1981 were $2.23 per share.

The rate of return of average ordinary share equity for 1982 was 12.81%, compared with 13.84% in 1981. Return on total invested capital for 1982 was 11.05%, compared with 11.00% in 1981.

The Company's objective for 1983 is to earn a return on ordinary equity of 14%. This objective, which falls well below the approved range of 16.5% to 17.5% set by the CRTC in 1982, is in keeping with the spirit of the "6 & 5%" guidelines set by the federal government and the economic realities of the day.

Revenues and Expenses

Again this year, the Company's operating revenues and sales exceeded the one billion dollar mark. Operating revenues for telecommunications increased by 12.9% to $1,009.4 million in 1982, compared with revenues of $894.3 million in 1981. Telecommunications operating expenses for 1982 totalled $741.3 million, an increase of 15.3% over the 1981 expenses of $643.1 million.

Manufacturing sales totalled $243.6 million in 1982, compared with 1981 sales of $188.9 million. Manufacturing costs and expenses were $231.3 million in 1982, compared with $184.7 million in 1981.

Dividends

The dividend on ordinary shares for the year was $1.60 per share compared with $1.42 per share in 1981.

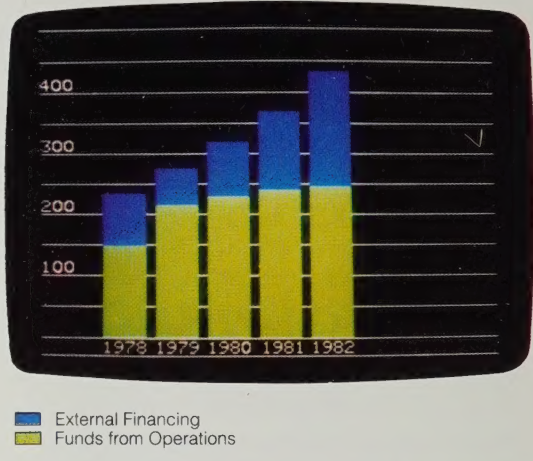
Financing

Details of financing transactions are contained in the Audited Financial Statements and notes thereto.

A total of $200 million in public issues was raised during 1982. The percentage of funds raised from internal sources for our 1982 construction program was down from that of the previous year — 57% compared with 62% in 1981. That this level was maintained is due primarily to the sharp reduction in the projected 1982 construction program.

The cost of money has become a substantial burden on our current and future earnings and as such it increases our vulnerability to fast-changing economic conditions. To ensure that we are able to obtain money at the lowest rates possible, we attempted to arrest the Company's deteriorating financial performance by an application for an interim increase in rates, described below.

Source of Funds
Used for Construction *(Millions of Dollars)*



REGULATION

1981 Rate Applications

On November 2, 1981, the Company filed a general rate application requesting increases to come into effect on May 1, 1982. Because the CRTC was unable to accommodate a prior request for an earlier date, the Company also asked that a portion of the increase be granted earlier on an interim basis. In neither case did the Company receive the full increases requested.

In its decision, the CRTC granted increases which added some $86 million to B.C. Tel's annual revenues, designed to produce a return on equity of 16.5%. By comparison, if granted, the Company's application would have generated some $106 million in additional revenues, for a return on equity of 17.5%.

Economic conditions, however, caused severe deterioration of our revenues and made it impossible for the Company to achieve the approved level of earnings.

1982 Rate Applications

Interim Increase

By mid-year, the effects of the recession on the Company's revenue base, work volumes and earnings were such that, having sharply reduced our construction program and operating expenses, our only option was to seek higher rates, if we were to maintain the financial integrity of the Company.

On October 7, 1982, the Company

filed an application with the CRTC for an interim rate increase of 6% to become effective January 1, 1983. At the same time, we notified the Commission that an application for a general increase, to become effective June 28, 1983, would be filed on December 23, 1982.

In its decision of December 10, 1982, the Commission denied the application for interim relief.

General Increase

On December 23, 1982, the Company filed an application for a general rate increase of 11.3% and requested that at least a portion of the increase should become effective May 1, 1983, following the public hearing.

This application for an 11.3% increase during 1983 is consistent with the Federal Government's restraint program in that it will be the Company's first increase since the imposition of the restraint program and spans the two-year period covered by the program.

It is the equivalent of a 6% increase followed by a 5% increase in the second year of the program and, if approved, would permit the Company to plan and make financial commitments to its employees, suppliers and investors.

If the rate increases are approved as requested, it is estimated that some $27 million of additional revenues will be generated in 1983. With approval, the rate of return on ordinary equity will be approximately 14% — without approval, approximately 12%.

Public hearings on the Company's application are scheduled to begin on April 6, 1983.

Other Regulatory Matters

Cost Inquiry — Phase III

B.C. Tel participated in Phase III of the CRTC's Cost Inquiry, which is examining the cost of existing services. Results of this phase of the inquiry are expected later in 1983 and will have important implications for the regulated telecommunications carriers.

With many aspects of the terminal equipment market effectively opened to competition, it will be necessary, for sound business reasons alone, to isolate or "unbundle" the costs of each product and each element making up a service. Already, the Company has been directed to unbundle prices for residential network access and for terminals, in the recent CRTC decision on the attachment of subscriber-provided terminal equipment to the carriers' networks.

Terminal Equipment Decision

On November 24, 1982, the CRTC ended the uncertainty which has prevailed for almost a decade in connection with competition in the terminal equipment market.

The Commission ruled that, with the exception of multi-party and two-party subscribers, customers are free to purchase any or all of their telephone equipment from the telephone company or from its competitors. Previous to this decision, subscribers were required to obtain their primary telephone instrument from B.C. Tel. Customers will continue to have the option of renting the equipment by the month as has been the traditional practice.

Although single-line residence and business customers will now have the option of owning or leasing their telephone sets, the inside wiring associated with the telephones will remain the property and responsibility of B.C. Tel.

The decision also confirms the practice of the past year, in that multi-line business customers have the choice of owning or leasing their equipment, but if they buy their own equipment they must also own the associated inside wiring.

The Commission's decision confirms that B.C. Tel will be permitted to participate in the terminal equipment lease and sale market and that the business terminal equipment unit (BTE), which the Company has set up, is an appropriate vehicle for this activity. Regulatory requirements with respect to lease and sale rates have been established.

General Competition

Regulatory decisions such as the one on terminal equipment — and the very nature of the new evolving technologies — are producing a business environment marked by competition. These developments are also producing a need for innovative, entrepreneurial approaches in order to survive and prosper.

B.C. Tel intends to do both and has undertaken a major corporate restructuring program to that end.

THE CHANGING CORPORATE ENVIRONMENT

Background

Like other North American telephone companies, B.C. Tel has been preoccupied for almost a century with the goal of providing universal service at reasonable rates. With the exception of the period covered by the great depression of the Thirties, the market seemed to be limited only by our ability to supply sets and services. In a monopoly situation with no competition for customers, there was a tendency for supply to determine and define demand.

This was a natural tendency but the result was that telephone companies became somewhat insensitive to the real demands of their customers. This situation no longer exists.

In the past decade a changing society, the more sophisticated wants and needs of customers, and the new computer-communications technologies, have combined to create a new and much more challenging business environment for this Company.

The products and services of computer-communications technologies have a natural attraction for the entrepreneur. New developments and enhancements of original designs appear with amazing rapidity, creating new markets or enlarging existing ones. Many of these markets are thin and somewhat fickle, as customers turn to the latest "bells-and-lights" entry and provide another opportunity for the aggressive entrepreneur.

In our society, increasing consumer activism is directed against higher prices and toward an insistence on higher quality of service. Regulatory agencies are reflecting these pressures in their decisions.

The Challenges

As a result of these developments, the Company faces challenges on two fronts.

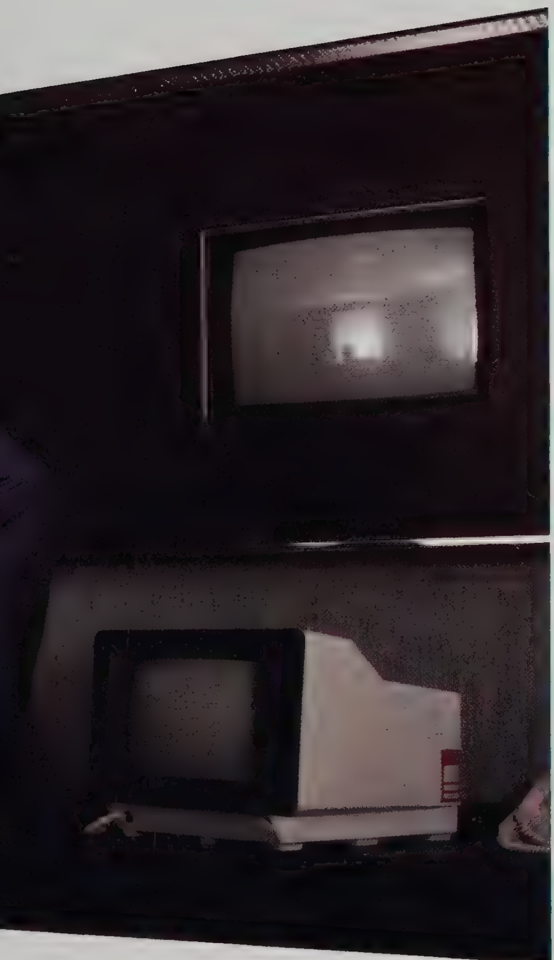
The first is competition in the provision of terminal equipment. The recent liberalization of regulatory control in the field of terminal equipment opens the door still further to permit competition for the provision of the main telephone for single-line residential and business customers. We were already facing tough competition in the business terminal equipment field from giants in the industry and from flexible new entrants.

Our principal business, telephone operations, is still largely a regulated monopoly, but changing regulatory emphasis tying the range of rate increases directly to the quality of local service offered makes it imperative that

The Business Communications Centre in downtown Vancouver is BTE's showcase for state-of-the-art terminal equipment.

The Company's operations are now divided into five areas: Fraser, Columbia, Burrard, Island and Mackenzie.

Left to right: Gary Abbott, Operations Manager; Wally Nowik, Sales Manager; Lynn Patterson, General Manager, BTE.



we give this aspect of our business even higher priority. As well, the threat of competition in long-distance voice-message service has had the effect of limiting increases in long-distance prices.

The Responses

As outlined in the Chairman's Letter, the Company has responded vigorously to these challenges.

From the start, we recognized that we must be able to define our future environment, and that any assumptions we made regarding that environment would have to be carefully considered and clearly articulated. Consequently, we have strengthened the strategic planning resources of the Company through a reassessment of the role and function of senior management and the adoption of a new corporate structure.

NEW CORPORATE STRUCTURE

In a diversified corporation such as B.C. Tel, it is important that each segment of the corporation should operate in a manner which will permit it to reach its own potential and, at the same time, contribute to the broader goals of the entire corporation. The Chief Executive Officer must ensure that these goals are set and successfully communicated. He must also ensure, through the allocation of resources and the setting of priorities, that the elements which make up the corporation have the tools they require to meet their individual goals.

These responsibilities, which have been implicit, have now been formalized, and a corporate support staff assembled to assist the Chief Executive Officer in the overall guidance of the corporation.

The telephone operations of the Company have been split to reflect the two different business environments and opportunities which now exist.

Business Terminal Equipment Unit

This unit, BTE, has been set up as a division of B.C. Tel to enable the Company to compete effectively in the growing business terminal market. It is a self-contained unit specifically designed to meet the needs of the business market and, like the competitors it faces in this market, it must become and remain profitable. Mr. E. L. Patterson, formerly Regulatory Director of B.C. Tel, is the General Manager of BTE.

Decentralized Telephone Operations

As outlined in the Chairman's Letter, the telephone operations of the Company have been divided into five areas, each with an Area General Manager. The Area General Manager is held accountable for balancing service and financial performance and has been provided with the necessary staff to do this.

Area operations include all aspects of engineering, network operations, outside plant maintenance and construction. Service districts have been distributed according to population and, together with Operator Services and Network Sales, will keep the Area General Managers close to the customer. There is also an Area Administration staff.

To ensure that the integrity of the network is maintained, the line operations of the areas are counter-balanced by strong technical and marketing staff at the Company's head office.

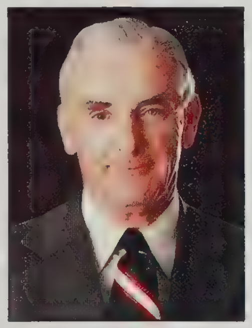
One of the primary objectives of the restructuring of telephone operations is to meet our customers' perceptions of what constitutes good service. We must give service a high priority, recognizing that quality of service has become an important factor in the CRTC's determination of our allowable rate of return.

The five new operating areas of the Company have been named Mackenzie, Columbia, Fraser, Burrard and Island. Their corresponding Area General Managers are Messrs. D. Haaheim, C. Swabey, G. Holmes, B. Canfield, and R. Johnston.

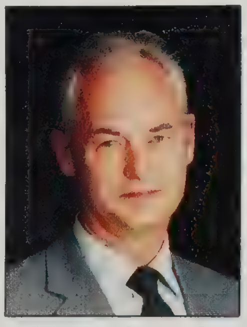
ORGANIZATION CHANGES

Retirements and the new corporate structure have resulted in several changes affecting senior management.

Retirements



Jack C. Carlile announced his retirement as President and Chief Operating Officer of B.C. Tel completing 28 years of service with the Company, broken by a three-year leave of absence as President of the TransCanada Telephone System. He joined B.C. Tel in 1954 and served in various management capacities in the plant, engineering and finance departments. Prior to being elected President and Chief Operating Officer in 1980, he had been at various times Vice-President — Finance, Operations and Administration.



Gordon M. Smith retired as Vice-President — Revenue Requirements of B.C. Tel, effective June 30, 1982, completing 36 years' service. Mr. Smith joined B.C. Tel in 1946 and held a variety of management positions including Northern Division Engineer, Plant Director, Northern Division Manager and Island Division Manager. Prior to his appointment as Vice-President — Revenue Requirements in 1976, he had been Vice-President — Service (Staff).

Developed by MPR and manufactured by Microtel, the revolutionary Satellite Thin Route Service utilizes the Anik C-3 satellite to bring regular telecommunications services to remote sites.

Technician Frank Ives installs remote satellite terminal.

Frank S. Tucker retired as Vice-President — Customer Service of B.C. Tel, effective December 31, 1982, completing 36 years' service. Mr. Tucker joined B.C. Tel in 1946. Positions held include Interior Division Engineer, Coastal Division Plant Manager, and Director of Plant and Customer Service. Prior to his appointment as Vice-President — Customer Service in 1981, he had been Vice-President — Personnel and Industrial Relations for a period of eight years.

The Board of Directors wishes to pay tribute to these three former officers of the Company and to thank them for the contributions they have made to this Company and to the cause of telephony. Their fellow officers are losing valued colleagues and good friends. Their collective service to this Company totals a century but the value of that service cannot be measured in years or dollars. Individually they have provided leadership of the highest quality and collectively they epitomize the spirit that, in spite of daunting obstacles, has made possible the miracle we call modern telecommunications. The Board salutes three good "telephone men".

Appointments and Re-assignments

The appointment of *W. K. (Bill) McCourt* as Vice-President — Network Marketing completes the executive support team of technical, administrative, supply and network marketing staff. Mr. McCourt, whose appointment was effective October 1, 1982, was formerly a senior Vice-President and Director of T. Eaton Company and brings to B.C. Tel more than 20 years' experience in market research, marketing, merchandising and administration.

Other executives who make up the support staff, some of whom have new assignments, are:

Gilbert F. Auchinleck, formerly Vice-President — Network Services, now Vice-President — Technical Support.

Donald W. Champion, formerly Vice-President — Personnel and Industrial Relations, now Vice-President — Administration.

Leo J. Dooling, formerly Treasurer, now Vice-President — Revenue Requirements.

Robert H. Stevens, Vice-President — Supply, Transportation and Buildings, and

J. Neil Stewart, Comptroller.

Reporting to the Chief Executive Officer are the following officers of the Company:

James A. MacInnes, formerly Vice-President — Marketing, now Vice-President — Corporate Communications.

D. Barry McNeil, formerly Vice-President — Administration, now Vice-President — Corporate Finance and Treasurer.

K. Donald A. Morrison, Vice-President — General Counsel and Secretary, and

Colin G. Patterson, Vice-President — Corporate Development.

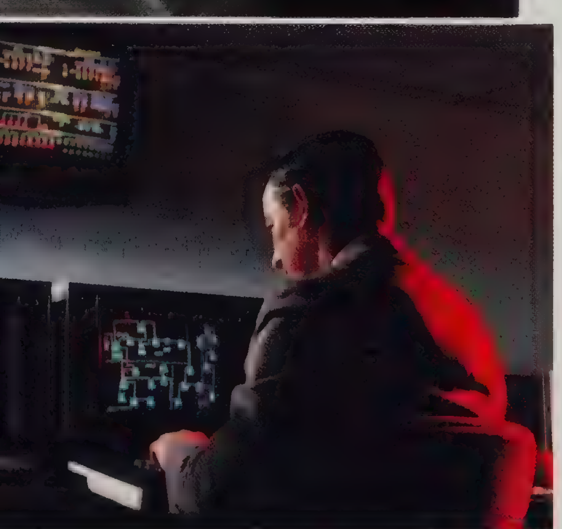
RESTRAINT

Restructuring the corporation is the Company's strategic plan to cope with its future business environment. The Company's program of restraint was its response to the harsh realities of 1982.

Every facet of the Company's activities — from the construction program to the reproduction of documents — was touched by the urgent need to control or reduce expenses. As a result of a combined effort, significant savings were realized over the course of the year — one of the most significant being the results of the work-sharing program which is described in the Chairman's Letter.

In addition to individual programs in the manufacturing and telecommunications operations, overall restraint measures included a virtual freeze on new hiring and on travel; reduction in Education Centre activities; a major

One of Microtel's success stories, the System 51 has been sold across Canada to provide supervisory and control functions for telecommunications and microwave networks, pipelines and hydro projects.



Background photo, left to right: Eric Strelau and Joe Geofroy testing a unit destined for Ontario Hydro.

Insert: Bill Dorman monitors part of the B.C. Tel network on a System 51 in New Westminster.

cut-back in the use of paid consultants and part-time employees, and a significant decrease in overtime.

Suggestions for individual measures which might control or reduce costs were sought from employees, and the immediate and imaginative response to this appeal was a clear indication that our employees understood and supported the need for restraint.

Individual programs varied from the reduction in the number of issues of the Company newspaper, B.C. Tel News, to the introduction of a shuttle bus service between the Company's head office and offices in downtown Vancouver; from increasing use of computers to control the ordering and distribution of materials to the purchase of smaller, more efficient vehicles for the Company's fleet, or the use of the backs of old maps as flip charts.

PROGRESS

Manufacturing Operations

The manufacturing arm of the Company, consisting of AEL Microtel Limited (Microtel) and its subsidiaries, Microtel Pacific Research Limited (MPR), Viscount Industries Limited and Control Devices — felt the nation-wide and world-wide impact of recession in 1982, but still improved its financial performace over that of 1981.

Manufacturing Sales

Increased sales of the GTD-5 digital switch on the domestic and world markets accounted for some of this improvement as did an expanding volume and variety of contracts related to the installation of telecommunications systems in many corners of the world.

Through its improvement of existing products, and the introduction of leading-edge technologies emerging from its research and development facilities, Microtel is positioning itself to compete successfully in the next generation of markets.

Microtel continues to be involved in the growing applications of Telidon through its research activities and the manufacturing of Telidon equipment.

Control Devices, now a division of Microtel, has made progress in its twin fields of energy-mangement-and-control systems for power utilities and remote monitoring systems for residential and commercial use.

Research and Development

Microtel's research and development arm, MPR, completed its move to new headquarters at Discovery Park, Simon Fraser University, in Burnaby in May.

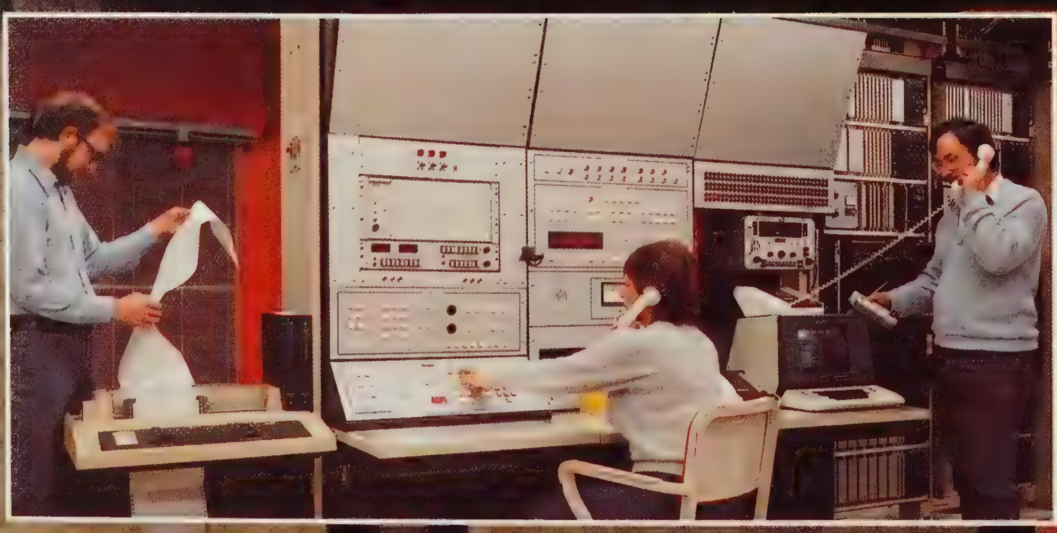
The 9,500 square-foot (882 square-metre) laboratory houses facilities for MPR's current R&D activities and will also contain the new Pacific Microelectronic Centre currently being installed. When completed, the centre will provide the facilities for the rapid design, packaging and testing of microchips, including the Very Large Scale Integrated (VLSI) chips. The silicon chip is reshaping our world. At MPR, we are reshaping the chip.

The launching of the communications satellite Anik C-3 from the American space shuttle Columbia on November 12, was an important event for MPR since it related directly to a major R&D project which has been underway for over a year — the Satellite Thin Route Service. MPR's Satellite Thin Route Service incorporates design features which will make it possible for B.C. Tel and Microtel to enter this expanding market with distinct pricing and product advantages. Field trials on the product, which links subscriber equipment with the satellite, have been intensified following the successful launch of Anik C-3.

A National Presence

Microtel, with factories in five provinces, marketing and project offices in all regions of the country, and western Canada's largest R&D facility, provides B.C. Tel with a national presence in the telecommunications industry. In its world-wide marketing activities, Microtel provides Canada with a respected competitor in the global telecommunications sweepstakes.

At year-end, Microtel had 2,916 employees, including 278 scientists and support staff at MPR; 20 employees at Viscount Industries, and 34 employees at Control Devices.



Traffic Service Position System (TSPS) is a long name for a friendly service – operator-assisted long distance calling.

Telephone Operations

In a difficult year, the energies of the telephone operations of the Company were directed equally to extending, improving and maintaining the Company's principal asset — its network — and to effecting economies without impairing the level of customer service.

Construction

Although the projected 1982 construction program of $452 million was curtailed by some $27 million, it nevertheless marked a record investment by the Company. It was also convincing evidence of the Company's long-term commitment to provide high quality, modern telecommunications services and products for the people of British Columbia.

Background photo, left to right: Kim Carmichael, Darlene Gilchrist, Jill Haskett, Gisela Brusatti.
Insert: Direct calls are routed through Electronic Stored Program Control (ESPC), computer-controlled switching systems. *Left to right:* Garry Richert, Chris Parnell, Neil McNabb.

In spite of current economic difficulties, we are planning and building for the future as we incorporate leading-edge computer-communications technologies such as digital transmission and switching, the use of fibre optics and the capability of utilizing satellite services in our network.

Last year, the Company allocated capital funds in its telecommunications construction budget as follows:

By Area* *(Millions of Dollars)*	**1982**	1981
Coastal	**$213.1**	$215.8
Island	**63.7**	46.9
Interior	**58.6**	37.3
Northern	**52.1**	45.0
Okanagan	**37.3**	25.2
	$424.8	$370.2

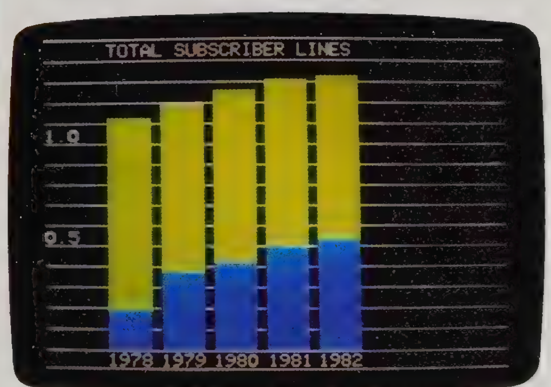
**These 1982 area designations have been replaced or renamed as part of the Company's restructuring.*

By Category *(Millions of Dollars)*	**1982**	1981
Primary Telephone Service	**$290.4**	$279.8
Modernization	**67.9**	33.2
Service Improvements	**17.8**	15.2
Operating Improvements	**26.2**	22.4
Administrative Support	**22.5**	19.6
	$424.8	$370.2

Service Development

The Company's Electronic Stored Program Control conversion program (ESPC) moved ahead during 1982 but at a slightly slower pace than in previous years. The program is based on growth as it replaces older switches which have reached their maximum capacity.

Electronic Stored Program Control (ESPC) Conversion *(Millions of Lines)*



ESPC Lines

The impact of the recession on our operations was indicated in the second quarter of 1982 when — for the first time since the depression of the '30s — there was an actual decrease in the number of customer lines served. However, improvements in the third and fourth quarters brought the net additions for the year to 15,831 customer lines compared with 53,590 lines added in 1981.

In meeting its present and future service obligations, the Company's activities ranged from the design and installation of the western terminus of the new trans Canada digital radio network at New Westminster, B.C., to the provision of a central office and pre-wiring of future office and residential locations in Tumbler Ridge — the new town which will serve the massive north-eastern coal development of the province. One of the longest fibre-optic trunking systems in North America is used to link the New Westminster digital terminus with the Company's major Lower Mainland central offices. Optic fibre has also been used to link microwave towers and central offices in Victoria and Campbell River.

The program for the introduction of Traffic Service Position System (TSPS) base units in major regions moved ahead with the completion of a TSPS base unit in New Westminster in 1982. Base units had been installed in Vancouver and Kelowna in previous years. A fourth unit, scheduled for Prince George in 1983, will complete this program.

Marketing

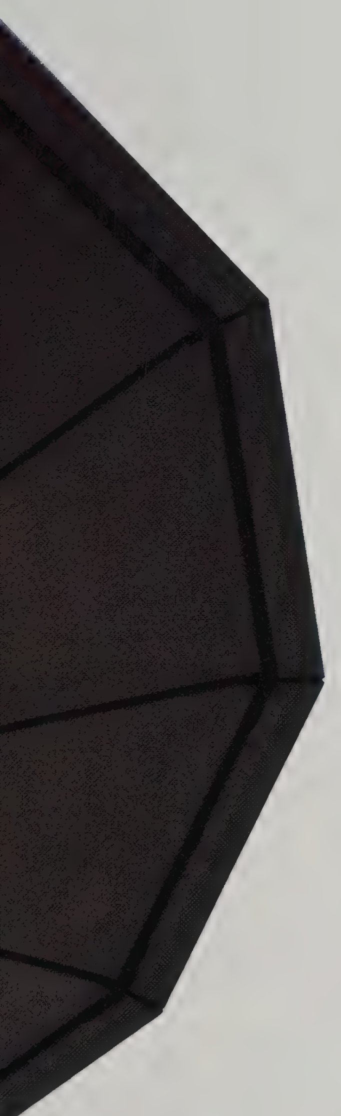
Although considerable attention was focused on the concept, planning and implementation of the Business Terminal Equipment unit (BTE) during the latter part of 1982, the Company did not neglect its strong overall marketing thrust.

Working in conjunction with TCTS, the new Datalink service was introduced. Designed especially for computers, Datalink combines the high reliability and accuracy of digital transmission with the flexibility of the long distance network to give the Company yet another weapon in the fight for its share of the expanding data communications market.

Opened early in the year, the Business Communications Centre provided B.C. Tel sales staff with a total selling environment, making it possible to display and demonstrate the entire product line for the small or medium business customer. Like B.C. Tel's entire marketing philosophy, the Centre is

Installed in 1982, the 70.6 metre digital radio tower in New Westminster is the western terminus for a sophisticated trans-Canada digital radio network.

Network transmission engineer Roy Wolfe tests optical fibre.



customer-oriented in recognition of changing customer attitudes, wants and needs.

Imaginative advertising campaigns promoted increased use of network services and products, while members of the sales staffs worked vigorously on a variety of seasonal and special promotions — each designed to add much-needed revenue to the Company.

Human Relations

Collective Agreement

Negotiations between the Company and the Telecommunications Workers Union for a new collective agreement began in mid-September. By mid-November, agreement had been reached on monetary issues and the matter of lay-offs. The full contract covering the two-year period of January 1, 1983 to December 31, 1984, was ratified by the members of the TWU in February.

The major features of the new agreement relate to wages and job security. Effective July 1, 1983, a 6% wage increase comes into effect for bargaining unit employees, with a further 7% increase to come into effect March 1, 1984.

Concurrent with this agreement, the Company has agreed to rescind the earlier layoff notices and has undertaken that there will be no layoffs during 1983.

The Lay-off Notices

Members of the TWU supported the early efforts of the Company to restrain costs but did not agree with the Company's proposal regarding work sharing. This proposal would have enabled the Company to realize significant payroll savings during the latter part of 1982 while maintaining the work force at its existing level. Management and exempt employees accepted the proposal.

At mid-year, local and long-distance revenues were declining sharply — an actual net loss of customer lines in the second quarter for example — and the Company felt it had no option but to serve notice of a temporary layoff of six months to some 1,800 regular employees, to become effective August 4, 1982. A complicated sequence of events followed.

The TWU applied to the Canada Labour Relations Board to have the Company's actions declared an "illegal lockout." The Board upheld the Company's position and the layoffs took place as scheduled August 4. The TWU sought an injunction against the layoffs and a hearing to determine their legality was held before Mr. Justice Spencer of the B.C. Supreme Court.

He ruled that the Labour Code regulation relied on by the Company in issuing the lay-off notices was invalid, and that the Company must therefore recall the laid-off employees and reinstate them on the payroll retroactively to August 4. This was done and it was the Company's turn to appeal — this time to the B.C. Court of Appeal.

Following a hearing in September, the B.C. Court of Appeal issued in November its decision, reversing the Supreme Court decision and ruling that the Company had, in fact, followed legal procedures.

The TWU has stated that it intends to seek leave to appeal to the Supreme Court of Canada.

The Company had placed the wages for the employees laid off in the period August 4 to August 12/13 in a trust fund, pending the outcome of the appeal. It is this money — amounting to more than a million dollars — which the TWU seeks to have returned to the laid-off employees.

Improving Work Environment

Evidence of an improving work environment at B.C. Tel emerged in a comment by the Canada Labour Relations Board as part of its decision on the Union's application regarding the layoff notices: "The Board is hopeful that these proceedings do not adversely affect the obviously improved relationship between the British Columbia Telephone Company and the Telecommunications Workers Union. We are greatly impressed by what we see and encourage the parties to continue to improve the dialogue between them, hoping that it will reflect on their next round of negotiations this fall."

There is little doubt that the improving relationship contributed to the speedy and amicable resolution of the contract negotiations.

The efforts of the Human Relations Task Force, formed immediately following the signing of the previous contract, were also a factor in improving morale and the working environment. Such innovations as the Quality Circle concept and the Speak Out program helped underline the Company's concern and commitment in the area of human relations.

A chip off the old block . . . the first integrated circuit designed, tested and packaged by MPR's Pacific Microelectronics Centre.

Office Automation

In an effort to determine the impact of developing technologies on the effectiveness and organizational behaviour of office staff, B.C. Tel's Corporate Planning department is currently conducting an experimental, electronic-office program. The system includes a central computer, CRT terminals and printers, and provides such functions as electronic messaging, filing and word processing.

IN THE COMMUNITY

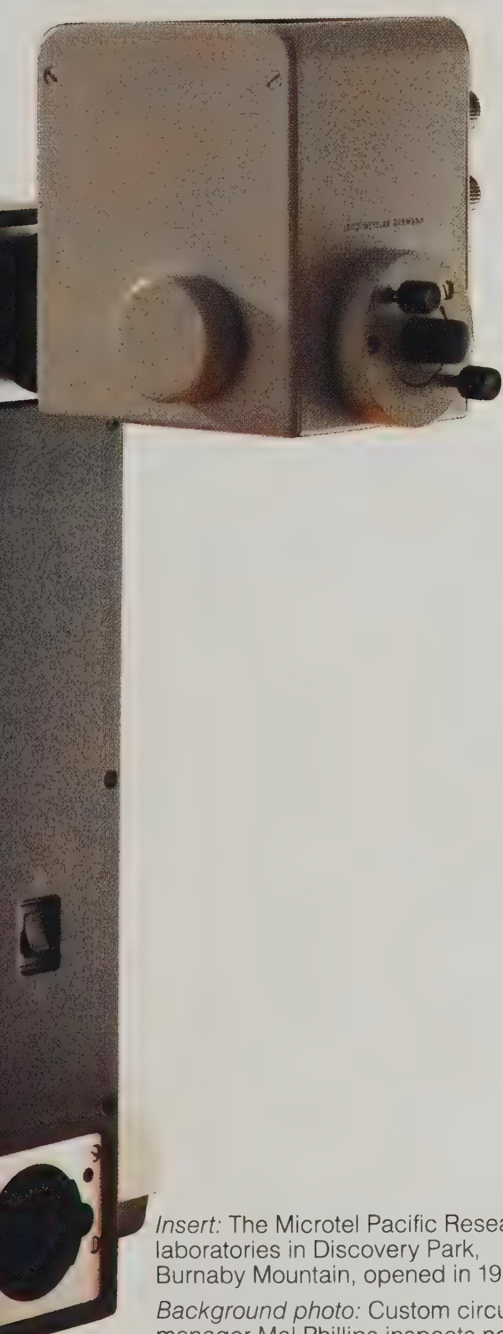
B.C. Tel's primary obligation to its community is the provision of reliable, high quality telecommunications services at reasonable prices. Good corporate citizenship in today's world goes beyond meeting primary obligations. It involves a sharing and support of community goals on the part of the corporation and the encouragement of its employees to contribute their time, efforts and initiatives to the larger community.

Corporate or individual good citizenship can take many forms. In the case of B.C. Tel, it can be courses in safety and first aid that all too often have to be used by individual employees to assist a member of the public in a life-threatening situation. It can be as simple and short-term as authorizing the donation of out-dated switchboard equipment to a school, or as complex and long-term as providing a most comprehensive program of awards and scholarships at all recognized post-secondary educational institutions in the province, including the innovative Native Indian Teacher Education Program at the University of British Columbia.

It can involve the 'loaning' of executives and employees in support of community projects. This involvement can range from the campaign chairmanship of the largest United Fund appeal in the province to teaching a high school course on business economics.

For the employee, it can mean serving on boards and committees, in an elected office, on a coaching staff or as a member of a team. The result of the effort may be an 'Outstanding Citizen' award. More often, it is simply the satisfaction of contributing to the community or testing one's skills and stamina — as was the result for those B.C. Tel employees who went mountain climbing in the Himalayas, completed the Boston Marathon or competed in the national curling championships.

Each year, B.C. Tel employees throughout the province participate in a major fund-raising drive on behalf of local community organizations, including the United Fund. Although the 1982 Telephone Employees Community Fund campaign did not equal the record-breaking performance in 1981, a very creditable and generous $365,000 was raised. The Directors wish to commend all those employees who participated in the TECF campaign as well as those who, each year, make private contributions to many other worthy causes.



Insert: The Microtel Pacific Research laboratories in Discovery Park, Burnaby Mountain, opened in 1982.

Background photo: Custom circuit manager Mal Phillips inspects new chip circuits at an MPR test station.

Allan M. McGavin, a Director of B.C. Tel since 1971, died suddenly on December 8, 1982. In addition to extending sympathy privately to Mrs. McGavin and family, the Board at its next meeting paid tribute to Mr. McGavin. The Chairman noted that Mr. McGavin was a man of the highest intelligence and integrity who held this Company in particular esteem.

"To us, his colleagues, he gave freely of his wisdom and the fruits of his experience and did so with a gentleness and warmth that illuminated our discussions. To his community and province, he provided a shining example of citizenship as he donated his time and talents in support of a variety of causes and projects which reflected the breadth of his own interests. Whatever his role — Chancellor Emeritus of the University of British Columbia or hard-working board member of corporations such as ours, Allan McGavin made his own special contribution and we are all the richer for it."

LOOKING AHEAD

In looking ahead, it is important that the pall cast by the miserable economic conditions which prevailed throughout 1982 should not obscure the very bright potential of this Company and of the technologies it employs.

The Technologies

The development which produced the astounding technological progress of the 1970's was the marriage of the computer and telecommunications, based on the invention of the silicon 'chip' and its application as a micro-processor.

For the 1980s, the most important development will be the dispersal of this computer power throughout the telecommunications networks and systems, bringing it ever closer to the system user. As processors and data bases are dispersed in the system, the need to communicate between them will greatly increase the sheer amount of data communications.

The potential of some of the new technologies — lasers, optic fibres and

satellites, for example — is only now being glimpsed, but their early applications give some indication of the tremendous impact they will have eventually.

The innovative use of telecommunications and its attendant technologies will go far to determine the success or failure of all industries in the 1980s.

The economies made possible by new developments in the design and manufacture of microchips will soon reach the point at which the cost of the chip will no longer be a determining factor in its use. It will be possible to make use of the chip based only on its suitability for the particular application.

With the microchip playing such an important role, it is obvious that the ability to design, package and test quickly will provide an opportunity to gain invaluable time in development and marketing of a new service or product.

The Company

With its expertise in the application of the new technologies and its manufacturing and R&D capabilities, this company occupies a position of strength which will enable it to take full advantage of the opportunities for growth and increased productivity.

As outlined earlier in this Report, MPR and the new Pacific Microelectronics Centre give the Company distinct advantages in the high-technology area — advantages we intend to exploit to the full.

The reorganization of the Company, based on a searching reassessment of its role in the future, has been put in place and will be implemented in 1983. We look to the results of a full year of operations under the new corporate structure with considerable optimism.

We have set new business directions and goals for the corporation as a whole and for each of its components. A vigorous entrepreneurial spirit is becoming manifest throughout the Company and we count on this spirit — plus sound, highly motivated leadership — to ensure that these directions are followed and the goals attained.

The signing of a new collective agreement without confrontation or recourse to outside agencies provides a strong psychological lift for the Company and its employees as we move into the difficult years ahead.

There is a distinct improvement in the morale of our employees, both management and union, stemming in part from a wider sharing of corporate goals. We intend to intensify the effort required to keep not only our employees but also our shareholders and customers better informed as to what the Company is doing — and why.

We have a modern, constantly improving telecommunications network and skilled staff in place throughout the province — a unique asset to support the Company's goal of remaining the dominant supplier of telecommunications services and products in this province.

In short, we are confident that our people, our resources and our sound leadership will enable the Company to move through 1983 and the balance of the decade with some assurance of progress.

What we cannot control or influence to any significant degree is the environment in which we do business.

The Company's Environment

It should not be assumed, however, that we anticipate a threatening or hostile environment. There are encouraging signs and developments in several areas affecting the Company.

For example, recent regulatory decisions are clearing away some of the confusion which has characterized the major issues of terminal attachment and systems interconnection, thus reinforcing our initial judgment to compete vigorously through the vehicle of BTE.

We also see some hope of further federal government action related to research and development and the encouragement of high technology industries such as ours. During the autumn of 1982, essentially the same recommendations regarding the need for additional government support and encouragement in these areas were made by no less than four separate studies and reports — those of the Science Council of Canada, the National Research Council, the Economic Council of Canada and the Fulton Report commissioned by the federal Department of Labour.

It is to be hoped that this concerted message by so many respected bodies will be heard and transformed into speedy and positive action. What is required is a definite and cohesive policy and a coordination of the various programs now in place.

This Company has already made substantial investments in research and the development of high-technology industry here in British Columbia. We accept that the driving force must come from private enterprise, but this force must operate in a supportive and encouraging atmosphere, and that is government's responsibility.

While there would appear to be little or no prospect of a quick and dramatic turnaround in the economy, there does seem to be some consensus that we have reached the bottom with nowhere to go but up. And British Columbia has been tagged as the province most likely to lead the way to recovery.

Declining interest rates, moderating inflation and some improvement in world markets for the province's products should produce a return to some measure of positive growth this year.

The surge of interest and participation in the stock markets here and abroad which has been so notable in recent months is, in our opinion, evidence of a deeply rooted basic optimism in the prospects for the economy, and an indication of the important role the private sector must play in any recovery.

For this Company, our goal is simple. We must survive what we believe to be the final period of this bitter recession. We must do so without sacrificing our ability to meet present or future demands on our system and our obligations to our shareholders and our employees.

It is a challenge of awesome proportions. We are determined to meet it.

On behalf of the Board of Directors,

G F MacFarlane

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Burnaby, British Columbia
February 17, 1983

Financial and Shareholder Information

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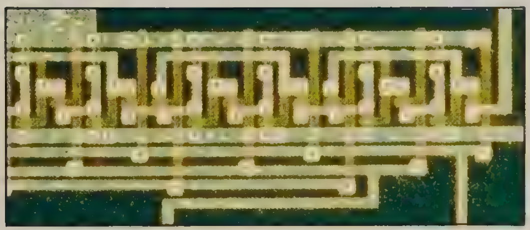


Financial Review

CONSOLIDATED EARNINGS

Consolidated earnings amounted to $2.11 per ordinary share in 1982 ($2.10 fully diluted), compared to earnings of $2.23 per share ($2.22 fully diluted) in 1981.

The contribution to share earnings by operating segment was as follows:

	1982	1981
Telecommunications	**$2.00**	$2.12
Manufacturing	**.11**	.11
	$2.11	$2.23

Economic recession throughout 1982 resulted in depressed levels of customer demand for local exchange and long distance services, the major cause of our failure to attain a satisfactory level of earnings this past year. In addition to reduced demand, we were adversely affected by interest rates and higher wage levels in 1982.

RATES OF RETURN

There was a moderate increase in the rate of return on average invested capital in 1982 to 11.05% from 11.00% in 1981. Higher rates of interest required by the Company's debt issues in 1982, and a decreased rate of revenue growth, reduced the return on ordinary equity. The 12.81% return achieved in 1982 was less than the 1981 return on ordinary equity of 13.84% and significantly below the 16.5% return allowed by the Company's regulator in its May 1982 decision.

TELECOMMUNICATIONS OPERATIONS

Operating Revenues

Operating revenues increased by $115.1 million or by 12.9% in 1982, totalling $1,009.4 million for the year compared with 1981 revenues of $894.3 million.

Approved rate increases that were implemented on an interim basis on January 1, 1982, followed by general increases on May 3, 1982, were instrumental in a 22.7% gain in local service revenues for the year.

Message toll volumes for 1982 were 1.5% below those of the previous year, in contrast to normal growth rates of 12% to 14% annually in prior years. Increases, however, in the average revenue per message resulted in a 6.6% increase to toll service revenues for the year.

Revenue performance was also affected by the increasing incidence of bad debt losses, which totalled 1.4% of earned revenues in 1982 compared with a loss of 1.0% in 1981.

Operating Expenses

The Company maintained stringent controls on operating expenses throughout 1982 and a work-sharing program by management and exempt employees was initiated in August as one further step in reacting to our deteriorating revenue position. Despite these efforts, 1982 operating expenses increased by $98.2 million or 15.3% over the 1981 total of $643.1 million due to inflation generally and to wage related costs that were contracted for before the recession began.

Costs associated with the maintenance and repair of our network, switching facilities and subscriber terminal equipment increased primarily

because of higher negotiated wage scales. Operating expenses in 1982 also reflected final implementation of accounting refinements as directed by the CRTC Cost Inquiry Phase I decision of 1979, whereby certain costs previously capitalized are now treated as expenses and thereby recovered more quickly from revenues.

MANUFACTURING OPERATIONS

Sales

Microtel's sales volume in 1982 increased by 29.0% to $243.6 million, from $188.9 million in 1981 when sales were reduced by strikes in two factories.

Increased domestic demand for the GTD-5 digital central office switch and major contract awards for various transmission and control systems were primarily responsible for the sales total this past year. Export sales totalling $35 million in 1982 exceeded 1981 export sales of $28 million.

Costs and Expenses

Manufacturing costs and expenses totalled $231.3 million for 1982 or 25.2% more than for 1981, because of the higher sales volume. Special efforts by all levels of management proved effective in keeping 1982 costs contained.

DEBT SERVICE COSTS

A high level of capital expenditures on new plant and equipment, plus the redemption of lower coupon securities maturing in 1982, necessitated a record amount of new borrowings during the year. This resulted in debt service costs of $107.8 million for 1982 or $15.9 million more than in 1981, an increase of 17.3%.

INCOME TAXES

Combined federal and provincial income taxes totalled $83.7 million for 1982, an increase of $5.5 million or 7.0% over 1981 taxes of $78.2 million. The higher 1982 amount was a result of increased pre-tax profit and a reduced level of R&D credits for Microtel. These credits were higher in 1981 because of the construction of a building for research and development activities.

NET EARNINGS

Consolidated net earnings of $88.9 million were recorded for 1982, an increase of $3.6 million over the previous year's net of $85.3 million. Of the 1982 total $16.7 million was allocated for preference and preferred dividends ($16.8 million in 1981), with a balance of $72.2 million remaining for ordinary shares ($68.5 in 1981).

Ordinary share dividends totalled $1.60 per share in 1982, compared to $1.42 in 1981. An increase of 3.5 million in the average number of shares outstanding during 1982 resulted in ordinary share dividend appropriations of $54.8 million for the year compared with a 1981 total of $43.6 million.

The balance of 1982 earnings remaining for reinvestment, down markedly from 1981 because of circumstances previously noted, amounted to $17.4 million compared to the previous year's balance of $24.9 million.

CHANGES IN FINANCIAL POSITION

Financing of the Company's 1982 capital expenditures was provided through cash flow from operations to the extent of $247.1 million or 57%. This compared with $238.5 million or 62% in 1981.

The additional funds required were secured through external financing by way of medium-term bond issues that provided $147.3 million in net proceeds and the sale of 11.24% preferred shares that provided a further $49.2 million.

Further external financing, including that required for repayment of maturing bond issues totalling $27.1 million, was accomplished primarily through short-term borrowings. By year-end, outstanding short-term debt totalled $170.4 million compared to $193.8 million at the end of 1981.

The net effect of these financing measures was to increase the Company's overall debt ratio from 55% to 56%.

Management Report

To Our Shareholders:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides Management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The Company's independent auditors, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these financial statements present fairly the Company's financial position and operating results in accordance with generally accepted accounting principles consistently applied. Their report is included below.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

D. B. McNeil
D. B. McNeil,
Vice-President – Corporate
Finance and Treasurer

Auditors' Report

To the Shareholders of
British Columbia Telephone Company

We have examined the consolidated balance sheet of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and subsidiaries as of December 31, 1982 and 1981, and the consolidated statements of earnings and earnings retained for use in the business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements appearing on pages 23 to 34, inclusive, present fairly the financial position of the Company and subsidiaries as of December 31, 1982 and 1981, and the results of their operations and the changes in financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Vancouver, Canada
February 2, 1983

ARTHUR ANDERSEN & CO.,
CHARTERED ACCOUNTANTS

Consolidated Statement of Earnings and Earnings Retained for Use in the Business

For the years ended December 31

British Columbia Telephone Company

		1982	1981
		(Millions of Dollars)	
Telecommunications Operations	***Operating revenues*** *(Note 3)*	**$1,009.4**	$ 894.3
	Operating expenses *(Note 4)*	**741.3**	643.1
	Telecommunications operating earnings	**268.1**	251.2
Manufacturing Operations	***Sales***	**243.6**	188.9
	Costs and expenses		
	Cost of sales	**209.5**	169.5
	Selling and administrative expenses	**21.8**	15.2
		231.3	184.7
	Manufacturing operating earnings	**12.3**	4.2
Combined Operating Earnings		**280.4**	255.4
	Debt service costs — net *(Note 5)*	**107.8**	91.9
	Earnings before income taxes	**172.6**	163.5
	Income taxes *(Note 6)*	**83.7**	78.2
	Net earnings	**88.9**	85.3
	Less — Preference and preferred share dividends	**16.7**	16.8
Ordinary share earnings		**72.2**	68.5
Earnings Retained for Use in the Business	Balance at beginning of year	**178.9**	155.0
		251.1	223.5
	Less — Ordinary share dividends	**54.8**	43.6
	— Share issue expense	**.9**	1.0
	Balance at end of year	**$ 195.4**	$ 178.9
Earnings per Ordinary Share	Basic	**$ 2.11**	$ 2.23
	Fully diluted	**$ 2.10**	$ 2.22
Average Ordinary Shares Outstanding		**34,265,000**	30,792,000

Consolidated Balance Sheet

As of December 31

ASSETS		1982	1981
		(Millions of Dollars)	
Telecommunications Property, *at cost*	Buildings, plant and equipment *(Note 9b)*	**$2,934.2**	$2,672.8
	Less — Accumulated depreciation	**879.0**	768.4
		2,055.2	1,904.4
	Land	**18.6**	17.8
	Property under construction	**209.6**	158.6
	Material and supplies	**29.2**	24.0
		2,312.6	2,104.8
Manufacturing Property, *at cost*	Plant and equipment	**63.9**	57.2
	Less — Accumulated depreciation	**28.9**	26.9
		35.0	30.3
		2,347.6	2,135.1
Investments and Other Assets, *at cost*	Telesat Canada	**3.3**	3.3
	Other	**1.0**	1.2
		4.3	4.5
Current Assets	Accounts receivable	**156.3**	157.4
	Accounts receivable — affiliated companies	**5.0**	9.4
	Inventories *(Note 7)*	**56.1**	68.0
	Prepaid expenses	**11.0**	9.6
		228.4	244.4
Deferred Charges	Unrealized and deferred losses on foreign exchange, less amortization	**9.9**	9.2
	Unamortized cost of issuing debt securities	**10.9**	8.9
		20.8	18.1
		$2,601.1	$2,402.1

Approved by the Directors,

Director

Director

CAPITALIZATION AND LIABILITIES

		1982	1981
		(Millions of Dollars)	
Capitalization	Equity *(Note 8)*		
	Ordinary shares	**$ 579.2**	$ 559.3
	Preference and preferred shares	**280.7**	239.6
	Total equity	**859.9**	798.9
	Long-term debt *(Note 9)*	**924.0**	792.0
		1,783.9	1,590.9
Current Liabilities	Cheques issued in excess of bank balances	**13.0**	25.4
	Short-term obligations *(Note 10)*	**170.4**	193.8
	Accounts payable	**84.1**	97.5
	Accounts payable — affiliated companies	**4.0**	.6
	Income taxes payable	**19.6**	18.6
	Dividends payable	**17.1**	15.2
	Accrued interest	**24.0**	18.1
	Other accrued liabilities	**36.9**	31.8
	Unearned revenues	**41.8**	29.1
		410.9	430.1
Income Taxes Deferred		**406.3**	381.1

Commitments *(Note 12)*

		$2,601.1	$2,402.1

Consolidated Statement of Changes in Financial Position

For the years ended December 31

British Columbia Telephone Company

		1982	1981
		(Millions of Dollars)	
Sources of Working Capital	***Operations***		
	Ordinary share earnings	**$ 72.2**	$ 68.5
	Add (deduct) items not requiring working capital		
	Depreciation	**211.2**	191.1
	Income taxes deferred	**25.2**	27.9
	Allowance for funds used during construction	**(11.4)**	(8.6)
	Other, net	**4.7**	3.2
		301.9	282.1
	Less — Ordinary share dividends	**54.8**	43.6
		247.1	238.5
	Financing proceeds, net of related costs and expenses		
	Ordinary shares issued		
	— for cash	**1.5**	52.8
	— on conversion of preferred shares	**.4**	1.7
	Preferred shares issued for cash	**49.2**	—
	Long-term debt	**150.5**	74.3
		201.6	128.8
	Less — redemptions, conversions or current maturities of long-term debt and preferred shares	**32.2**	37.6
		169.4	91.2
		416.5	329.7
Application of Working Capital	***Capital expenditures***		
	Gross capital expenditures	**433.9**	384.2
	Increase in material and supplies	**5.2**	2.7
		439.1	386.9
	Less — Salvage value of plant retired, net	**14.4**	10.1
	— Allowance for funds used during construction	**11.4**	8.6
		413.3	368.2
	Decrease (increase) in working capital	**(3.2)**	38.5
	Working capital deficiency, beginning of year	**185.7**	147.2
	Working capital deficiency, end of year	**$182.5**	$185.7
Working Capital Deficiency	Represented by:		
	Current liabilities	**410.9**	430.1
	Current assets	**228.4**	244.4
	Working capital deficiency	**$182.5**	$185.7

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

British Columbia Telephone Company is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain of the Company's goods and services and periodically issues directives which affect the accounting treatment of specific items in the Company's accounts. *(Note 2)*

(a) **Earnings Per Ordinary Share**

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the period. Fully diluted earnings per ordinary share reflect the potential full conversion of the $2.32 convertible subordinate preferred shares.

(b) **Consolidation**

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, AEL Microtel Limited (together with its wholly-owned subsidiaries, Viscount Industries Limited, and Microtel Pacific Research Limited), North-west Telephone Company, and Canadian Telephones and Supplies Ltd. (together with its wholly-owned subsidiary Cantel Leasing Ltd.). The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is included in telecommunications property and is being amortized over periods not exceeding thirty years. Such amortization amounted to $700,000 in 1982 ($700,000 – 1981).

All significant intercompany transactions have been eliminated except for purchases of telecommunications equipment and supplies by British Columbia Telephone Company from AEL Microtel Limited (Microtel) which are reflected in the consolidated balance sheet at cost to the parent, and are included in manufacturing sales in the consolidated statement of earnings *(Note 15)*. To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated earnings and earnings retained for use in the business.

(c) **Telecommunications Property**

Telecommunications property is recorded at historical cost and includes certain payroll costs and general overheads applicable to the construction activity. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction (AFC) is included in income by way of an offset against debt service costs. The capitalization rate (defined by the CRTC as the rate of return on average invested capital earned by the utility during the preceding fiscal year)

1. Summary of Significant Accounting Policies *(continued)*

was 11.09% in 1982 (10.09% – 1981). Such income is not realized in cash currently but will be realized over the service life of the property.

No gain or loss is recognized in the statement of earnings when depreciable telecommunications property is retired. The original cost of the property is either charged to accumulated depreciation or, when the property is reusable, to materials and supplies.

(d) **Depreciation**

Depreciation rates for telecommunications property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 7.32% for 1982 (7.39% – 1981).

Depreciation on manufacturing property is provided over the estimated useful lives of the assets using a straight-line basis.

(e) **Investment in Telesat Canada**

The investment in 330,000 common shares of Telesat Canada, representing 5.5% of the total outstanding shares, is recorded at original cost. There is no quoted market value for this investment, however, its estimated book value was $6,500,000 as at December 31, 1982 ($5,900,000 – 1981).

(f) **Income Taxes**

The Company and its subsidiaries use the deferral method of income tax allocation by providing for deferred income taxes on all timing differences between accounting income and taxable income except for AFC where no deferred tax is provided as no such provision is allowed for regulatory purposes. *(Note 6)*

(g) **Translation of Foreign Currencies**

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at the balance sheet date.

Currency gains and losses are included in net earnings for the year except for gains and losses on long-term debt which are amortized over the remaining lives of the related issues. *(Note 5)*

The Company's total foreign currency indebtedness as at December 31, 1982 was $77,100,000 (U.S.) ($76,300,000 U.S. – 1981).

(h) **Research and Development**

Product and service development expenditures which in Management's opinion result in identifiable telecommunications operations assets have been deferred. Such deferred expenditures amounted to $5,500,000 at December 31, 1982 ($3,800,000 – 1981) and will be amortized over the expected life of the related products and services. Amortization of these amounts to date has not been material.

All other research expenditures for development and improvement of new and existing products and services are expensed as incurred. The amount expensed in 1982 was $14,900,000 ($8,400,000 – 1981).

(i) **Leases**

Leases are classified as capital or operating leases depending upon the terms of the contract. Assets recorded under capital leases are amortized on a straight-line basis over the life of the lease. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. Assets, liabilities and amortization related to these leases are not material in amount.

Long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Income is recognized over the term of the lease, generally five or ten years. The equipment is depreciated in accordance with existing depreciation policy. Assets, liabilities and amortization related to these leases are not material in amount.

2. Accounting Refinements

The May 8, 1979 Cost Inquiry Phase I decision of the CRTC directed certain accounting refinements into the accounting practices of telecommunications carriers so as to ensure uniformity of practices within the industry. The refinements result in the charge to expense of certain overhead costs previously capitalized as telecommunications property. The final accounting refinement of the decision was implemented late in 1981 resulting in increased 1982 expenses of $9,000,000 ($13,700,000 – 1981).

3. Operating Revenues – Telecommunications Operations

	1982	1981
	(Millions of Dollars)	
Local service	**$ 424.0**	$ 345.6
Toll service	**555.5**	521.3
Other, net of uncollectibles	**29.9**	27.4
	$1,009.4	$ 894.3

4. Operating Expenses – Telecommunications Operations

	1982	1981
	(Millions of Dollars)	
Operations	**$ 489.1**	$ 417.9
Depreciation	**201.8**	183.5
Provincial, municipal and other taxes	**50.4**	41.7
	$ 741.3	$ 643.1

5. Debt Service Costs

	1982	1981
	(Millions of Dollars)	
Interest on long-term debt	**$ 92.5**	$ 79.4
Other interest	**29.4**	22.9
Amortization of unrealized and deferred losses on foreign exchange	**1.4**	1.3
Amortization of issue costs	**.8**	.8
	124.1	104.4
Less – Allowance for funds used during construction	**11.4**	8.6
– Service charges on overdue accounts	**4.9**	3.9
	$ 107.8	$ 91.9

6. Income Taxes

	1982	1981
	(Millions of Dollars)	
Currently Payable – Federal	**$ 45.8**	$ 35.9
– Provincial	**19.8**	15.5
Deferred	**18.1**	26.8
	$ 83.7	$ 78.2

A reconciliation of the Canadian statutory income tax rate to the effective income tax rate is as follows:	1982	1981
Combined basic federal and provincial income tax rate	**53.8%**	53.8%
Allowance for funds used during construction	**(3.5)**	(2.8)
Tax incentives for scientific research	**(1.2)**	(3.1)
Other	**(.6)**	(.1)
Effective income tax rate per Consolidated Statement of Earnings	**48.5%**	47.8%

7. Inventories – Manufacturing Operations

Inventories are valued at the lower of cost and net realizable value:

	1982	1981
	(Millions of Dollars)	
Finished goods	**$ 8.5**	$ 5.1
Uncompleted contracts and work in process	**40.6**	57.1
Raw materials	**7.0**	5.8
	$ 56.1	$ 68.0

8. Equity

(a) Details of Shareholders' Equity

Ordinary		1982	1981
		(Millions of Dollars)	
Ordinary Shares without par value: 34,322,022 shares outstanding (34,183,505 – 1981)		**$381.3**	$379.2
Earnings retained for use in the business		**195.4**	178.9
Contributed surplus *(Note 8c)*		**2.5**	1.2
		$579.2	$559.3
Preference and Preferred	Redemption Premium *(Note 8e)*		
$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares Par Value of $25 Each	—	**1.2**	1.5
Cumulative Preference and Preferred Shares			
Par Value of $100 Each			
6% Preference	10%	**1.0**	1.0
4⅜% Preferred	4%	**6.0**	6.0
4½% Preferred	4%	**5.0**	5.0
4¾% Preferred	5%	**7.5**	7.5
4¾% Preferred (Series 1956)	4%	**7.5**	7.5
5.15% Preferred	5%	**12.0**	12.0
5¾% Preferred	4%	**10.0**	10.0
6% Preferred	5%	**4.5**	4.5
Par Value of $25 Each			
4.84% Preferred	4%	**20.0**	20.0
6.80% Preferred	6%	**10.0**	10.0
7% Preferred	—	**27.5**	30.0
7.04% Preferred	7%	**20.0**	20.0
7.40% Preferred (Not redeemable before July 15, 1984)	5%	**45.5**	47.0
7.65% Preferred (Not redeemable before August 1, 1983)	5%	**30.5**	31.5
8¾% Preferred	—	**3.4**	5.1
10.16% Preferred	3%	**19.1**	21.0
11.24% Preferred (Not redeemable before June 15, 1990)	5%	**50.0**	—
		279.5	238.1
Total Equity		**$859.9**	$798.9

(b) Authorized Capital

The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of $1,250,000,000. As at December 31, 1982 and 1981, the total approved share capital of the Company was $750,000,000.

(c) Changes During 1982

Ordinary shares

— There were no ordinary share offerings in 1982 (1981 – 3,343,504 shares for $50,200,000).

— 29,366 shares (138,664 – 1981) were issued during 1982 on conversion of 14,683 $2.32 convertible subordinate preferred shares (69,332 – 1981).

— 109,151 shares (242,890 – 1981) were issued during 1982 for $1,600,000 ($3,700,000 –

1981) through the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

Preferred shares

— Mandatory redemptions of preferred shares in the amount of $5,700,000 were made in 1982 and 1981 as described in Note 8e. In addition to the mandatory redemptions, 15,300 – 10.16% preferred shares were redeemed for $400,000. This amount will be used to reduce the Company's 1983 redemption requirements.

— the Company redeemed 40,200 – 7.65% preferred shares in 1982 (40,200 in 1981) in the amount of $1,000,000 ($1,000,000 – 1981) and 60,000 – 7.40% preferred shares (60,000 in 1981) in the amount of $1,500,000 ($1,500,000 – 1981). These redemptions resulted in $1,300,000 of contributed surplus ($900,000 – 1981).

(d) **Ordinary Shares Reserved**

At December 31, 1982, the following shares remained reserved:

— 496,676 shares under the Company's Employee Share Purchase Plan as approved by the CRTC on March 20, 1979. There are presently no offerings outstanding under the Plan.

— 743,393 shares under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on April 24, 1979. The purchase price for the plan is the average market price for the five days preceding the investment date.

— 93,356 ordinary shares for the conversion of the $2.32 convertible subordinate preferred shares. The $2.32 convertible preferred shares are convertible on the basis of two ordinary for each preferred share at any time prior to July 1, 1986.

(e) **Preferred Share Redemption Requirements and Purchase Obligations**

Redemption requirements or purchase obligations apply to seven issues:

— $2.32 convertible subordinate preferred shares are subject to (a) a purchase obligation requiring the Company to purchase specified quantities of such shares in the open market at a price not exceeding par value, to the extent that they are available in each 12-month period, and (b) voluntary redemption at the option of the Company at any time at a premium of 8% to June 30, 1982, declining annually thereafter to par value after June 30, 1986.

— 7% preferred shares are subject to redemption of 100,000 shares each year until 1985, with the balance of 800,000 shares due in 1986.

— 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12 month period 60,000 shares at a price not exceeding $25 per share excluding costs of purchase.

— 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12 month period, 40,200 shares at a price not exceeding $25 per share excluding costs of purchase.

— 8¾% preferred shares are subject to redemption of $1,700,000 each year, to retire the issue by 1984.

— 10.16% preferred shares are subject to mandatory redemption at par value over a 20-year period with 60,000 shares due annually on September 1 until 1995. Shares acquired or redeemed by the Company during each 12 month period may be applied, at the Company's option, to reduce the number of shares required for mandatory redemption. Redemption at the option of the Company in any amount on and after September 1, 1980 requires a premium of 5% declining annually thereafter to par after September 1, 1985.

— 11.24% preferred shares are subject to (a) a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 3 month period 15,000 shares at a price not exceeding $25 per share excluding costs of purchase and (b) a mandatory redemption on June 15, 1990 of any shares tendered on or before May 15, 1990 at a price of $25 per share. Commencing July 1, 1990 and thereafter, the Company shall make all reasonable efforts to purchase 4% per annum of the shares outstanding immediately after the June 15, 1990 redemption at a price not exceeding $25 per share excluding costs of purchase.

Other issues are redeemable at the stated redemption premium only at the Company's option.

9. Long-Term Debt

(a) **Details of Long-Term Debt**

	1982	1981
	(Millions of Dollars)	
British Columbia Telephone Company First Mortgage Bonds		
Series F 5% due April 1, 1982	**$ —**	$ 25.0
Series G 5¼% due November 1, 1983	**20.0**	20.0
Series H 6% due September 15, 1984	**15.0**	15.0
Series I 5¾% due August 1, 1985	**15.0**	15.0
Series J 5¾% due July 15, 1986	**20.0**	20.0
Series K 5⅝% due April 15, 1988	**20.0**	20.0
Series L 6¾% due October 15, 1989	**30.0**	30.0
Series M 6⅜% due March 15, 1991	**30.0**	30.0
Series N 9⅛% due April 1, 1990	**3.3**	3.3
Series O 9⅝% due November 15, 1992	**18.0**	18.0
Series P 9⅛% due November 15, 1992	**.5**	.5
Series Q 8¼% due March 1, 1994	**35.0**	35.0
Series S 7⅞% due November 15, 1995	**25.0**	25.0
Series T 8⅝% due October 15, 1993	**40.0**	40.0
Series U 8⅛% due November 1, 1996 ($20 million U.S. funds)	**24.6**	23.7
Series V 9% due October 1, 1997	**40.0**	40.0
Series X 9¼% due April 15, 1998	**35.0**	35.0
Series Y 11% due January 15, 1996	**45.0**	45.0
Series AA 10¼% due April 1, 1995	**30.0**	30.0
Series AC 10½% due February 1, 1982-96 ($28.3 million U.S. funds)	**34.7**	35.6
Series AD 10¼% due October 15, 2001	**60.0**	60.0
Series AE 9.70% due June 15, 1999	**50.0**	50.0
Series AF 9⅞% due November 1, 2003	**75.0**	75.0
Series AG 14¼% due April 1, 1986	**75.0**	75.0
Series AH 16⅜% due April 1, 1987	**100.0**	—
Series AI 17¼% due September 1, 1988	**50.0**	—
	891.1	766.1
Promissory Notes		
Issued at varying rates of interest from 9.50% to 11.35% and maturing on varying dates within one year *(Note 9c)*	**50.0**	50.0
AEL Microtel Limited		
10% notes payable, due in semi-annual instalments of $.5 million	**—**	1.0
Other at varying rates of interest from 6% to 9.75%	**.9**	1.0
	.9	2.0
Amounts due under capitalized equipment leases	**4.9**	4.1
Total Long-Term Debt	**946.9**	822.2
Less – Current portion *(Note 10)*	**22.9**	30.2
Long-Term Debt	**$924.0**	$792.0

(b) **First Mortgage Bond Issue Requirements**

The Company's telecommunications property is subject to liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1½% of the principal. Company practice has been to pledge additional unmortgaged property. Additional First Mortgage Bond issues also must meet the interest coverage ratio standards specified under the Deed of Trust and Mortgage.

(c) **Redemption Provisions**

The First Mortgage Bonds, except for Series AG and AH, may be redeemed prior to maturity at various premiums to a maximum of 7.65%. Such redemptions cannot be made if the funds borrowed for refunding purposes have an interest cost that is less than the interest cost of the bonds redeemed.

The Series AI Bonds are redeemable at the option of the Company on and after

9. Long-Term Debt *(continued)*

September 1, 1987.

(d) **Long-Term Debt Maturities**

The Series AC Bonds mature serially in the amount of $1,700,000 (U.S.) on February 1, in each of the years 1982 to 1995 and the remaining $6,100,000 (U.S.) matures on February 1, 1996.

Series AG and Series AH are extendable at the holder's option for a further five year term.

The total long-term debt maturities during each of the next five years are:

	(Millions of Dollars)
1983	$ 22.9
1984	$ 17.2
1985	$ 17.2
1986 *(Including Series AG)*	$ 97.2
1987 *(Including Series AH)*	$102.2

(e) **Promissory Notes**

The promissory notes are issued to obtain funds for general corporate purposes including the cost of extension and improvements to the plant and properties of the Company. These borrowings will be repaid from the proceeds of long-term financings.

In 1980, the Company entered into an agreement for a ten-year revolving loan facility for up to $50,000,000. Drawdowns under the agreement are by way of promissory notes issued for periods of 30 days to 365 days. Interest payable by the Company thereon will be comparable to rates obtained on promissory notes issued on the commercial paper market. To the extent that the promissory notes in total exceed the maximum of the agreement, they are included in short-term obligations.

10. Short-Term Obligations

Amounts falling due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

	1982	1981
	(Millions of Dollars)	
Current portion of long-term debt *(Note 9)*		
First Mortgage Bonds, current maturities		
5% series F due April 1, 1982	**$ —**	$ 25.0
5¼% series G due November 1, 1983	**20.0**	—
10½% series AC, due February 1, 1983 ($1,700,000 U.S.)	**2.1**	2.1
Current maturities of long-term debt of subsidiaries	**—**	1.1
Amounts due under capitalized equipment leases	**.8**	2.0
	22.9	30.2
Bank loans, 10.75% to 12.50% interest	**14.2**	15.3
Bank loans ($12,900,000 U.S.), 9.40% to 11.50% interest	**15.9**	18.6
Promissory Notes, current maturities, 9.50% to 12.00% interest	**117.4**	129.7
	$170.4	$193.8

Short-term obligations are included in total capitalization for regulatory purposes in computing capitalization ratios and rates of return on capital.

11. Lines of Credit

At December 31, 1982, the Company had in place aggregate lines of credit totalling $353,000,000 ($337,000,000 – 1981). The Company maintains unused lines of credit with Chartered Banks at least equivalent to the aggregate of promissory notes outstanding.

12. Commitments

The Company estimates the construction programs for additional plant and facilities to cost $397,700,000 in 1983. Substantial purchase commitments have been made in connection with these programs.

13. Pension Plans

The Company maintains a number of pension plans covering substantially all employees, subject to conditions related to age and period of service.

The annual accrued pension costs for all management and exempt employees and the bargaining unit employees in Manufacturing Operations are placed in trustee funds, the value of which exceeded the benefits vested with the employees at the date of the last actuarial review. The pension plans for bargaining unit employees in Telecommunications Operations require that the Company contribute a fixed percentage of gross employee earnings without liability for the benefits payable.

13. Pension Plans *(continued)*

The Company is governed by and complies with the Canada Pension Benefits Standards Act which contains provisions regarding the solvency of pension plans. Actuarial studies are prepared at least every three years and experience deficiencies, if any, in the plans are funded and amortized over the succeeding five-year period. Based on the most recent actuarial valuations, as at December 31, 1982, the pension plan for management and exempt employees in Telecommunications Operations has an estimated unfunded liability of $17,500,000 ($12,500,000 – 1981).

Total pension costs were $30,900,000 ($24,400,000 – 1981) which include $4,000,000 ($2,100,000 – 1981) for amortization of past service and experience deficiencies.

14. Remuneration of Directors and Officers

During the year, 11 directors of British Columbia Telephone Company received aggregate remuneration of $95,000 ($109,000 – 1981) as directors of the Company and 16 officers received aggregate remuneration of $1,252,000 ($1,258,000 – 1981). None of the officers of the Company received remuneration from subsidiary companies.

15. Related Party Transactions

Transactions with related parties (all affiliates of GTE Corporation) for the year ended December 31, 1982 were purchases and sales of telecommunications equipment and supplies *(Note 1)*, directory advertising commissions, royalties on equipment manufactured under licence and payments for services rendered under cost-sharing agreements. Approximately 61% (58% – 1981) of the sales and 20% (27% – 1981) of the purchases of Microtel were to and from related parties. Such sales include $110,100,000 to the Company for 1982 ($79,900,000 – 1981). Microtel sales of telecommunications equipment to the Company are at prices and terms as low as those offered to Microtel's most favoured customers for like materials and services under comparable conditions.

16. Industry Segments Information

British Columbia Telephone Company and its subsidiary companies operate principally in two business segments:

1. Telecommunications operations, which include local exchange and long distance telephone services, teletype, transmission of facsimile and data and other telecommunications services; and
2. Telecommunications equipment manufacturing, which includes research and development and sales of telecommunications equipment, training, engineering, installation services and distributed products.

The following table sets forth revenues, operating profits and supplementary data for the years ended December 31, 1982 and 1981 for each of the company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1982	1981	**1982**	1981	**1982**	1981
			(Millions of Dollars)			
Sales to the public	**$1,009.4**	$ 894.3	**$133.5**	$109.0	**$1,142.9**	$1,003.3
Inter-segment sales	**—**	—	**110.1**	79.9	**110.1**	79.9
Total revenues	**1,009.4**	894.3	**243.6**	188.9	**1,253.0**	1,083.2
Segment operating profit	**268.1**	251.2	**12.3**	4.2	**280.4**	255.4
Interest charges	**(99.5)**	(84.8)	**(8.3)**	(7.1)	**(107.8)**	(91.9)
Income taxes	**(83.4)**	(84.4)	**(.3)**	6.2	**(83.7)**	(78.2)
Net earnings	**$ 85.2**	$ 82.0	**$ 3.7**	$ 3.3	**$ 88.9**	$ 85.3
Identifiable assets	**$2,471.3**	$2,259.1	**$129.8**	$143.0	**$2,601.1**	$2,402.1
Capital expenditures	**$ 424.8**	$ 370.2	**$ 9.1**	$ 14.0		
Depreciation and amortization	**$ 201.8**	$ 183.5	**$ 4.3**	$ 3.2		

Telecommunications Operations are conducted in the Province of British Columbia. Manufacturing Operations have plants located in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. 26% of manufacturing sales to the public were to the export market (26% – 1981).

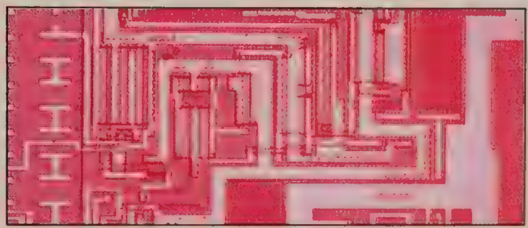
17. Prior Year Presentation

The 1981 amounts have been reclassified, where applicable, to conform with the 1982 presentation.

Financial Supplement

Quarterly Financial Data

	Three Months Ended	March 31	June 30	Sept. 30	Dec. 31	Total 1982
			(Millions of Dollars)			
Telecommunications Operations	Operating revenues	$ 243.2	$ 245.3	$ 254.0	$ 266.9	$1,009.4
	Operating expenses	186.6	183.8	180.9	190.0	741.3
	Telecommunications operating earnings	56.6	61.5	73.1	76.9	268.1
Manufacturing Operations	Sales	41.8	66.7	62.9	72.2	243.6
	Costs and expenses	43.1	64.0	59.3	64.9	231.3
	Manufacturing operating earnings (loss)	(1.3)	2.7	3.6	7.3	12.3
	Combined operating earnings	55.3	64.2	76.7	84.2	280.4
	Debt service costs	24.1	29.7	27.9	26.1	107.8
	Earnings before income taxes	31.2	34.5	48.8	58.1	172.6
	Income taxes	15.3	16.0	24.2	28.2	83.7
	Net earnings	15.9	18.5	24.6	29.9	88.9
	Less — Preference and preferred share dividends	4.1	4.1	3.9	4.6	16.7
Ordinary Share Earnings		$ 11.8	$ 14.4	$ 20.7	$ 25.3	$ 72.2
Earnings Per Ordinary Share	— basic	$ .35	$ .42	$ .60	$ .74	$ 2.11
	— fully diluted	$ .35	$ .42	$ .60	$ .73	$ 2.10
Average Ordinary Shares Outstanding *(In Millions)*		34.2	34.3	34.3	34.3	34.3



Current Cost Data

The current cost data given below represents the Company's estimate of the current replacement cost on the basis of repricing the existing in-service property at a point in time, together with the effect on depreciation expense and manufacturing cost of sales. The data provides a comparison between historical cost and current cost for existing assets. Actual replacement of property, however, will utilize the most appropriate mix of existing and new technology which will affect the capital cost, operating cost and revenue streams of the Company in a manner which is impracticable to estimate. For this reason a complete restatement of earnings adjusted for the effects of inflation has not been made.

Comparative Statement of Selected Current Cost Data

		1982		1981	
		Historical Cost	Current Cost	Historical Cost	Current Cost
			(Millions of Dollars)		
Telecommunications Operations	Buildings, plant and equipment	**$2,934.2**	**$5,130.0**	$2,672.8	$4,429.1
	Less – Accumulated depreciation	**879.0**	**1,389.9**	768.4	1,321.7
	Net property investment	**2,055.2**	**3,740.1**	1,904.4	3,107.4
	Depreciation expense	**201.8**	**364.8**	183.5	311.9
Manufacturing Operations	Plant and equipment	**63.9**	**114.4**	57.2	113.6
	Less – Accumulated depreciation	**28.9**	**52.4**	26.9	61.4
	Net property investment	**35.0**	**62.0**	30.3	52.2
	Cost of sales	**209.5**	**214.7**	169.5	171.3

Current Cost Data *(continued)*

Current Cost Concepts and Estimating Procedures

(a) **Property**

The current cost of property has been estimated on the basis of what it would cost at December 31, 1982 and 1981 to replace the existing investment with identical property. The estimates were developed by restating the historical cost property balances from the date of being placed in service, through the use of specific price indices based on the Company's own experiences. In some instances, where internal indices were unavailable, external indices were used. Property under construction was not restated as the historical cost approximates current cost.

No current cost estimate has been made for the Company's investment in land since the productive capacity will not have to be replaced.

(b) **Accumulated Depreciation and Depreciation Expense**

The estimated remaining life and the depreciation rates used in the current cost estimates are the same as those used for the historical cost estimates. Depreciation expense was estimated on the basis of the average current cost for the year.

(c) **Cost of Sales** (Manufacturing Operations)

Cost of sales was estimated on the basis of current cost at the date of sale and also reflects the current cost depreciation charge.

Employee Costs

		Telecommunications[1] 1982	Telecommunications[1] 1981	Manufacturing 1982	Manufacturing 1981	Consolidated 1982	Consolidated 1981
				(Millions of Dollars)			
Total Employee Costs Analysed as Follows:		**$ 470.6**	$ 412.5	**$ 90.3**	$ 70.4	**$ 560.9**	$ 482.9
Salaries and Wages as Payment for:	Time on the job	**$ 336.2**	$ 303.5	**$ 74.5**	$ 56.6	**$ 410.7**	$ 360.1
	Vacations and holidays	**46.4**	39.1	**8.8**	7.5	**55.2**	46.6
	Occupational training (Ed. Centre)	**3.7**	9.2	**.1**	.2	**3.8**	9.4
	Other	**33.3**	19.9	**.0**	.4	**33.3**	20.3
		83.4	68.2	**8.9**	8.1	**92.3**	76.3
	Total Salaries and Wages	**419.6**	371.7	**83.4**	64.7	**503.0**	436.4
Related Costs:	Company funding to pension plans	**29.0**	23.0	**1.7**	1.4	**30.7**	24.4
	Group medical/dental benefit payments	**8.7**	5.9	**1.8**	1.4	**10.5**	7.3
	Other employee benefits	**2.4**	2.5	**.9**	.8	**3.3**	3.3
	Canada Pension Plan/Quebec Pension Plan	**4.3**	3.8	**.9**	.8	**5.2**	4.6
	Unemployment Insurance	**5.4**	4.8	**1.1**	1.0	**6.5**	5.8
	Workers' Compensation	**1.2**	.8	**.5**	.3	**1.7**	1.1
	Total Related Costs	**51.0**	40.8	**6.9**	5.7	**57.9**	46.5
	Total	**$ 470.6**	$ 412.5	**$ 90.3**	$ 70.4	**$ 560.9**	$ 482.9

Taxes Levied by Governments in Canada

	1982	1981
	(Millions of Dollars)	
Income taxes		
Federal	**$ 58.4**	$ 54.8
Provincial	**25.3**	23.4
Property and machinery taxes	**41.5**	33.4
Capital taxes	**3.1**	2.9
Payroll taxes[1]	**13.4**	11.5
	$ 141.7	$ 126.0

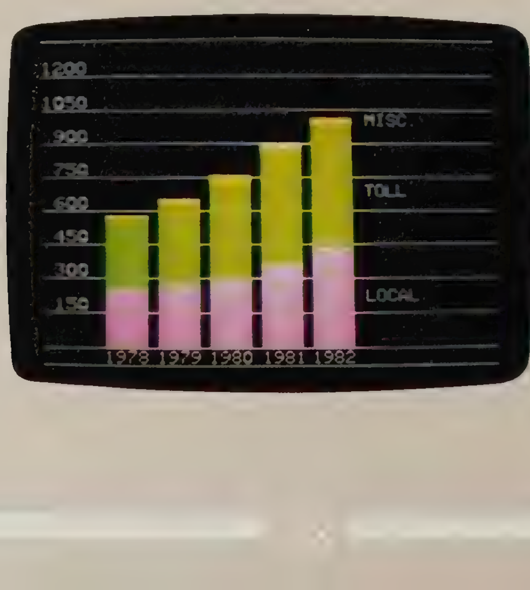
NOTE: (1) Includes amounts capitalized

Consolidated Five-Year Statistics

Selected Income Items[1] *(Millions of Dollars)*	Telecommunications operating revenues[2]
	Telecommunications operating expenses
	Salaries and wages expense
	Provincial, municipal and other taxes
	Other operating expense
	Depreciation
	Manufacturing sales
	Manufacturing cost of sales
	Manufacturing selling and administrative expenses
	Combined operating earnings
	Debt service costs
	Income taxes
	Preference and preferred dividends
	Ordinary share earnings
	Ordinary share dividends
Financial Ratios	Earnings per ordinary share
	Dividends declared per ordinary share
	Equity per ordinary share
	Percent return on average ordinary share equity
	Percent return on average invested capital
	Percent debt to total capitalization

NOTES: (1) Microtel included effective from the date of acquisition, October 1, 1979.
(2) 1979-1978 revenues are before adjustment to comply with Anti-Inflation guidelines.

Telecommunications Operating Revenues *(Millions of Dollars)*

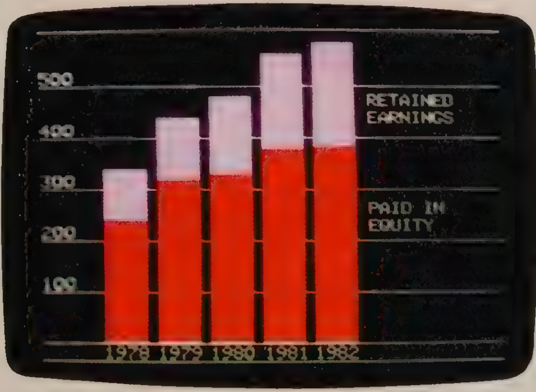


Telecommunications Operating Expenses *(Millions of Dollars)*

1982	1981	1980	1979	1978
$1,009.4	$ 894.3	$ 754.5	$ 656.9	$ 576.3
741.3	643.1	534.7	478.5	395.2
331.3	274.3	220.9	200.9	172.2
50.4	41.7	33.5	30.3	28.4
157.8	143.6	121.8	101.2	82.0
201.8	183.5	158.5	146.1	112.6
243.6	188.9	188.4	47.8(1)	—
209.5	169.5	162.4	40.7(1)	—
21.8	15.2	13.5	4.0(1)	—
280.4	255.4	232.3	199.8	155.8
107.8	91.9	76.2	64.9	58.4
83.7	78.2	76.5	65.7	46.0
16.7	16.8	17.7	17.3	17.5
72.2	68.5	61.9	51.8	33.8
54.8	43.6	36.4	32.5	23.5
$ 2.11	$ 2.23	$ 2.04	$ 1.92	$ 1.55
$ 1.60	$ 1.42	$ 1.20	$ 1.20	$ 1.08
$ 16.87	$ 16.36	$ 15.73	$ 14.91	$ 14.14
12.81	13.84	13.48	13.32	11.32
11.05	11.00	10.22	9.81	9.02
56	55	55	54	57

Earnings
Per Ordinary Share *(Dollars)*

Ordinary Share Equity *(Millions of Dollars)*

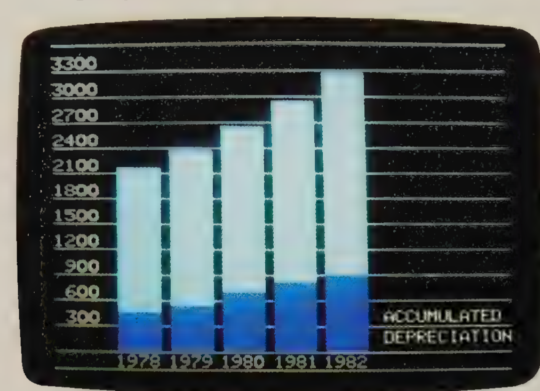


Consolidated Five-Year Statistics

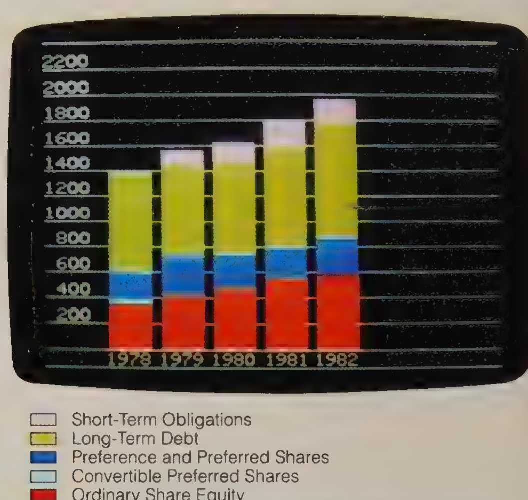
Selected Balance Sheet Items[1] *(Millions of Dollars)*	Total property, at cost
	Accumulated depreciation
	Total capitalization
	Short-term obligations
	Long-term debt
	Preference and preferred shares
	Ordinary share equity
Telecommunications Statistics	Gross capital expenditures *(In Millions)*
	Subscriber lines in service *(In Thousands)*
	Percent electronic switched subscriber lines
	Net telecommunications property investment per subscriber line *(In Dollars)*
	Local calls completed in the year *(In Millions)*
	Toll calls completed in the year *(In Millions)*
	Regular full time employees
	British Columbia Telephone Company
	Canadian Telephones and Supplies Ltd.
	Number of shareholders
Manufacturing Statistics[1] *(Millions of Dollars)*	Domestic sales
	Export sales
	Research and development expenditures
	Regular full time employees
	AEL Microtel Limited
	Microtel Pacific Research Limited

NOTE: (1) Microtel included effective from the date of acquisition, October 1, 1979.

Property Investment *(Millions of Dollars)*

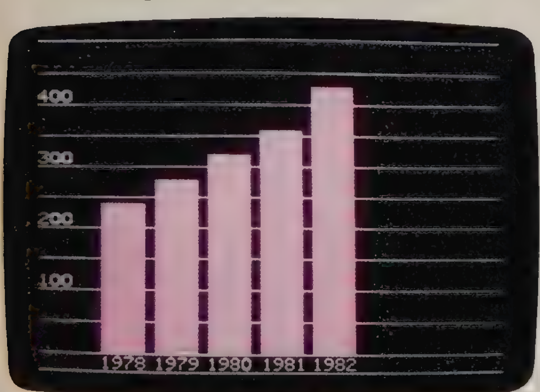


Capital Structure *(Millions of Dollars)*

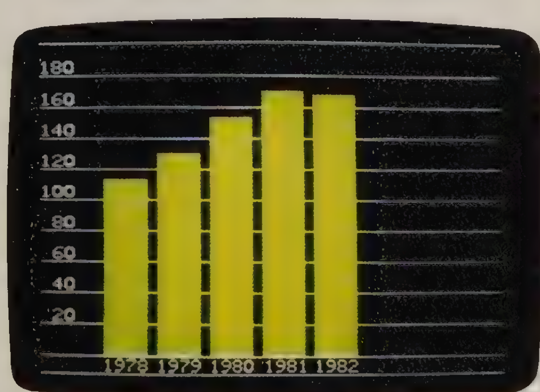


1982	1981	1980	1979	1978
$3,255.5	$2,930.4	$2,623.6	$2,365.8	$2,132.8
907.9	795.3	673.2	566.9	474.0
1,954.3	1,784.7	1,624.2	1,534.9	1,378.0
170.4	193.8	149.8	95.7	8.8
924.0	792.0	745.8	733.7	774.9
280.7	239.6	249.6	262.5	253.5
579.2	559.3	479.0	443.0	340.7
$ 424.8	$ 370.2	$ 318.9	$ 276.5	$ 237.0
1,326	1,311	1,257	1,190	1,128
39.9	38.0	32.9	31.2	16.2
$ 1,744	$ 1,606	$ 1,536	$ 1,494	$ 1,470
3,140.0	3,165.7	3,034.7	2,413.2	2,119.7
168.4	171.1	152.6	130.3	113.4
14,063	14,406	13,235	12,890	11,336
863	859	768	787	957
27,692	26,409	28,016	26,171	27,574
$ 208.8	$ 161.4	$ 133.3	$ 27.4[1]	—
34.8	27.5	55.1	20.4[1]	—
9.9	8.4	8.8	2.1[1]	—
2,638	3,038	2,935	3,030	—
278	263	241	—	—

Telecommunications
Capital Expenditures *(Millions of Dollars)*



Toll Calls *(Millions)*



Directors and Officers

Directors

(a) **Gordon F. MacFarlane,** *Chairman and Chief Executive Officer British Columbia Telephone Company, Burnaby, B.C.*

(b) *left,* **J. Ernest Richardson**[1], *Company Director, Vancouver, B.C.*
centre, **Gerald H. D. Hobbs**[1], *Private Investor, Vancouver, B.C.*
right, **W. Thomas Brown**[2], *Chairman, Odlum Brown Limited, Vancouver, B.C.*

(c) *left,* **Allan M. McGavin†,** *Company Director, Vancouver, B.C.*
centre, **Victor F. MacLean**[3], *Company Director, Vancouver, B.C.*
right, **John W. Pitts**[1], *President and Chief Executive Officer MacDonald, Dettwiler and Associates Ltd., Vancouver, B.C.*

(d) *left,* **Hugh R. Stephen**[2], *Company Director, Victoria, B.C.*
centre, **Horace B. Simpson**[3], *Vice-President, Okanagan Holdings Ltd., Kelowna, B.C.*
right, **Justin V. Harbord**[3], *J.V. Harbord Company Ltd., Victoria, B.C.*
seated, **M. Rendina K. Hamilton**[3], *Barrister and Solicitor, Kelowna, B.C.*

Member of:
1 Audit Committee
2 Salary Committee
3 Pension Trust Committee

† Deceased December 8, 1982


(a)


(b)


(c)


(d)

(e) *left,* **Gilbert F. Auchinleck,** *Vice-President, Technical Support*
centre, **Frank S. Tucker,** *Vice-President, Customer Service, Retired December 31, 1982*
right, **W. K. (Bill) McCourt,** *Vice-President, Network Marketing*

(f) *left,* **Peter C. Watson,** *Assistant Treasurer*
centre, **Donald W. Champion,** *Vice-President, Administration*
right, **D. Barry McNeil,** *Vice-President, Corporate Finance and Treasurer*
seated, **Jack C. Carlile,** *President and Chief Operating Officer, Retired December 31, 1982*

(g) *far left,* **J. Neil Stewart,** *Comptroller*
centre left, **Robert H. Stevens,** *Vice-President, Supply, Transportation and Buildings*
centre right, **Betty J. Rumford,** *Assistant Secretary*
far right, **James A. MacInnes,** *Vice-President, Corporate Communications*

(h) *standing left,* **Leo J. Dooling,** *Vice-President, Revenue Requirements*
standing right, **Gordon M. Smith,** *Vice-President, Revenue Requirements, Retired June 30, 1982*
seated left, **Colin G. Patterson,** *Vice-President, Corporate Development*
seated right, **K. Donald A. Morrison,** *Vice-President, General Counsel and Secretary*

Officers

(e)

(f)

(g)

(h)

Shareholder Information

	1982	1981
Number of ordinary shareholders	**11,885**	11,430
Number of shares outstanding at December 31	**34,322,022**	34,183,505
Volume of shares traded:	**3,241,684**	2,460,891
The Toronto Stock Exchange		
Price Ranges (High-Low):	**\$17¼-12¼**	\$17¼-14

Principal Ownership
The Company's outstanding ordinary shares totalled 34,322,022 as at December 31, 1982.
GTE Corporation of Stamford, Connecticut, through its subsidiaries, Anglo-Canadian Telephone Company of Montreal and GTE International Incorporated, was at December 31, 1982 the owner of 17,454,077 shares, or 50.85% of the total ordinary shares outstanding (50.72% fully diluted).

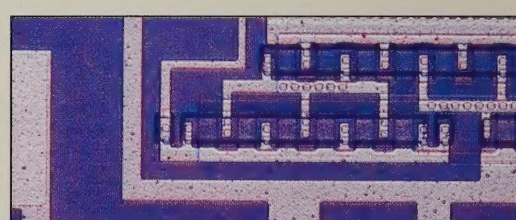
Conversion
The \$2.32 convertible subordinate preferred shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1982, 46,678 or 2.0% of such shares had not yet been converted.

Dividend Reinvestment and Share Purchase Plan
The Company maintains a plan whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional contributions. The Plan was improved, effective January 1, 1983, to provide a discount of 5% on the price of ordinary shares purchased with reinvested ordinary share dividends and to allow for optional contributions of up to \$5,000 per calendar quarter for the purchase of additional ordinary shares. For an Offering Circular explaining the Plan, please write to:
Investor Relations, 19th Floor, 3777 Kingsway, Burnaby, B.C. V5H 3Z7

Ordinary Share Dividends
Dividends are payable quarterly on the first days of January, April, July and October. In 1982, dividends declared amounted to \$.40 per share for each quarter, for an annual total of \$1.60.

Market trading
Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

Federal Government
Valuation Day Value
(December 22, 1971) **\$12.75/Share**



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Transfer Agent and Registrar
Montreal Trust Company

Duplicate Annual Reports
Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting
The Annual General Meeting of the Shareholders will be held on Thursday, March 24, 1983 at 11:00 a.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

Additional information or copies of the Annual Report may be obtained by writing to Investor Relations at the Head Office address above. Residents in the Vancouver area may also call 432-4410, while residents elsewhere in British Columbia may call free of charge 112-800-663-9405. From elsewhere in Canada, please call free of charge 1-800-663-9405.

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